STATEMENT

OF

HON. JAMES H. ECKELS,

COMPTROLLER OF THE CURRENCY,

MADE BEFORE THE

COMMITTEE ON BANKING AND CURRENCY,

HOUSE OF REPRESENTATIVES,

(At the request of the Committee)

ON THE

EXISTING FINANCIAL AND BANKING SITUATION

AND THE

PROPOSED REMEDIES.

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COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., Thursday, January 28, 1897.

The committee met at 10.30 a. m.

Members present: The chairman (Mr. Walker), and Messrs. Brosius, Johnson, Van Voorhis, McCleary, Fowler, Lefever, Spalding, Calderhead, Hill, Cooke, Cox, Stallings, Black, Newlands, and Hendrick.

The CHAIRMAN. Gentleman of the committee, we are to hear to-day Mr. James H. Eckels, Comptroller of the Currency.

The Comptroller of the Currency appeared before the committee in response to the following resolution:

[Extract from the Record of the meeting of the Committee on Banking and Currency, December 9, 1896.]

Mr. BROSIUS offered the following resolution, which was unanimously agreed to:

Resolved, That all general bills [H. R. 171, 1999, 6442, 7085, and 7247] now before the committee contemplating a revision of the banking and currency system be submitted to the Comptroller of the Currency, with the request that he analyze the same in writing and come before this committee and state the effect of each bill if enacted into law, and also that he formulate and submit to this committee his views of a proper measure for the revision of the financial and banking system of the country.

STATEMENT OF HON. JAMES H. ECKELS, COMPTROLLER OF THE CURRENCY.

Mr. Eckels addressed the committee as follows:

Mr. CHAIRMAN AND GENTLEMEN OF THE COMMITTEE: I am not sure I can be of much practical benefit to the committee at this time. The committee were good enough to extend an invitation to me to come before ~~you~~ them to present such views as I entertain upon the subject of banking and currency, and wishing to cooperate with ~~you~~ them in arriving at such conclusions as will remedy patent defects in the existing banking and currency laws of the country, I accepted it, and am present to discuss such questions as it is deemed best to inquire into.

There have been sent to me by the chairman a number of bills which were prepared and presented by different members of the committee, and which, I believe, have been discussed by the authors of them at greater or less length. The accompanying communication requested me to analyze the same and state to the committee what I deemed would be the effect of these bills if enacted into law. The task imposed is rather a difficult one, and I have not undertaken it except in a general way. I have not reduced my views to writing, and therefore do not wish that which I say to be considered in the nature of a set argument. My purpose is to talk on the general subject in a very conversational way.

I am sure everyone will agree that there is something wrong in the financial condition of the country, and that it ought to be remedied. The difficulty arises not so much in knowing what the causes are, but in agreeing as to the remedying of the financial laws of which the people complain.

LONG-CONTINUED FINANCIAL DEPRESSION.

The long-continued financial depression under which the country has rested and the general ill condition of both our own trade and commercial relations have been the means of attracting more attention to the lack of proper finance laws than would otherwise have followed. I think it not unlikely the general public charge more to the lack of proper financial measures as a cause of hard times than should attach to such cause. My own belief is that a great many causes have contributed to produce the conditions which have characterized the business world throughout the last few years. I think a great deal of business loss and depression has been brought about by overtrading and a great deal by unwise speculation. So, too, a great deal has resulted from an undue extension of credit, and still more by unusual and unnecessary extravagance in public and private expenditure. A careful examination will show that there has been on the part of the public a living beyond the public income, and on the part of the individual a similar disregard of the first essential to prosperity. In addition to all of these sources of commercial and industrial weakness the country has passed through an unusual number of far-reaching agitations of domestic and foreign questions, all tending to disturb, unsettle, and retard business undertakings.

LEGISLATION NEEDED.

However, all these things in and of themselves would not have produced the results now seen had they not been brought to a climax by both bad financial legislation and a want of good financial legislation. It therefore seems to me, as a step toward placing the country in a proper condition, there ought to be enacted such legislation as will completely relieve the Treasury's currency difficulties and give the people a banking law that will, as nearly as possible, furnish all sections of the country with proper banking facilities, both as to deposits and discounts and bank-note issues.

VOLUME OF CURRENCY NOT THE QUESTION.

Throughout the whole discussion of this question, both in the press and in public, and, with all due deference to Congress, in Congress as well, it seems to me there has been more importance attached to the mere matter of the volume of the circulating medium of the country

than to some other things which are quite, if not more, essential to a right solution than volume. There may possibly have been a time in the country when the volume of the circulation was the most important factor to consider, but I think that period has passed. It is a great mistake to take the position that it is essential to financial prosperity that in any particular country or in any particular financial center there should always be a large volume of money. The modern methods of transportation and the improved methods of banking exchanges have largely solved that question. It is now of a great deal less importance in this country, for instance, whether there is always here a large volume of money than it is that here is maintained the very highest credit, national, corporate, and individual. If we have credit and hold out investments which offer inducements to those who have capital to invest, it is immaterial whether loanable capital is immediately in this country or elsewhere. It will always seek the place where the returns on the investments promise to be the best for the lender.

ESTABLISH NATIONAL CREDIT.

The first essential to placing the people of this country upon a safe business basis is to so establish the national credit that it will cease to be a matter of discussion either here or elsewhere. It ought to be rid of everything which raises the question as to whether or no the country will at all times and under all circumstances maintain it. The simple fact that there has been a continual discussion for the past four years of the ability of the United States to maintain the credit of the country and redeem its demand obligations in gold has alone been a great source of financial embarrassment to the people. The agitation of it worked harm to them abroad and, through a reflex action, at home. I am thus certain that the important act is to take the step that will obviate any further discussion upon the question of the maintenance here of national credit. Ultimately, if not immediately, I think the solution of the question of money, standards, and volume of circulation in this country will come through an economically sound banking bill.

BILLS BEFORE THE COMMITTEE.

The bills which have been presented, with a single exception—the one presented by Mr. Brosius—all tend to the same thing, in recognizing, as the predominating evil in our financial system and a source of immediate weakness, the demand obligations of the Government. The bill prepared by the chairman of the committee recognizes that fact; the bill which was prepared by Mr. Fowler recognizes that fact; the bill prepared by Mr. Hill recognizes that fact, and the bill prepared by Mr. Cox does also. The bill prepared by Mr. Brosius as an amendment to the present law not only takes the position that these demand obligations are not an evil, but distinctly provides that nothing in his bill shall in any wise repeal or set aside the provisions of the present law which provide that the demand obligations of the Government shall not be canceled and retired, and makes compulsory their reissue by the Secretary of the Treasury. While these bills recognize this fact, they all differ upon the point of how the Government shall be rid of these obligations.

THE SOURCE OF OUR FINANCIAL TROUBLE.

I am confident that the greatest source of the financial difficulty in the Treasury arises from the recurring current redemption of the demand obligations of the Government. My own opinion in this regard is

emphasized by the provisions of these various bills which I have enumerated. If it was put to any one of the authors of these measures, I do not believe there is one of them, except Mr. Brosius, whose views, judging from his bill, are very decidedly the other way, but would say that the best thing to do, if it could be done without too great expense, would be the funding through a bond issue of these demand obligations. In this way the payment and cancellation of them could be had and the Government be put in a position where it would not be necessary for it, at great cost and worry, to maintain against them a gold reserve for their current redemption. But while all seem to agree that such course would be the best to pursue, there is apparently a difference of opinion as to whether it is at this time the most practical thing to do.

I am very free to say that my own judgment is that the practical thing in a matter affecting the public interest is always the best thing, and the best thing is always the practical thing. There may be, however, in this instance, some very good reasons known to those who take such view why, if the desired thing is to be accomplished in the end, the most direct way is not the best.

PROTESTS AGAINST RETIREMENT OF GREENBACKS.

I am aware that there is much protest and many objections urged against the refunding and cancellation of the Government's demand obligations, even on the part of those who believe they cause more or less loss. The main objection on the part of those who believe in the retirement of them, but not in funding them through an issue of bonds, is that the public would protest against the plan and the requisite legislation could not be passed. The error of the general public arises in the first instance from looking upon a legal tender demand obligation of the Government as a noninterest-bearing debt, and in the second because of a belief that their funding would tend to contract the country's volume of currency. It is not a noninterest-bearing debt, but instead is the most expensive debt the Government has to do with. As a direct money proposition the keeping idle and out of the channels of trade of a large sum of gold as a necessary reserve, with the consequent loss of interest on it, is one item of continued expense, while the interest upon and ultimate payment of the bonds to maintain the current redemption of the legal-tender obligations is a still larger item of cost to the people. Added to these things is the patent fact that these demand obligations are always, in a time of financial depression, a source of weakness not only to the Government but to every business interest, thus making them immeasurably a greater burden than a bonded indebtedness for a definite amount and limited as to payment to a definite period of time.

WOULD NOT CAUSE CONTRACTION.

Turning to the suggested dangers of a contraction of the currency the assumption that such a result to a harmful extent would follow is erroneous. I do not believe that a contraction of the currency beyond that which is healthful is possible in this country, if this country's credit is unquestioned and unquestionable. I do not believe, if the legal tenders were retired gradually—you can not retire them all at one time, and I do not think anybody ever contemplated that they should be—any contraction in the volume of our circulating medium would follow more than was needful to business interests.

If the plan which was entered on by Secretary McCulloch, under an act of Congress, had been continued to the end, the country would not have suffered from half the financial difficulties it has. There would also have been less financial heresies taught upon the subject of a Government-created money.

If these obligations should now be retired gradually, whether by funding or otherwise, it would be found wherever money was needed that either the banks would supply the necessary currency or else gold would come from other places where it was not needed to fill up any vacuum here.

The practical truth in currency matters is that there never is a vacuum permitted to exist which ought to be filled, and where reasons exist why it ought to be filled, but that it is immediately filled. The needed amount for this purpose comes from places where there is too much money to be profitably employed.

DANGER OF THE PRESENT SYSTEM.

If the legal tenders were retired, with the country possessed of a proper banking bill, whatever deficiency was created or increase in the circulation was needed would come through the banks, or else gold would come here from other countries. At present the business interests of the country do not suffer half as much in actual money loss from the present banking system as they do from the compulsory maintenance of the demand obligations of the Government, which are currently redeemed and which are never retired. It must be evident to any man of practical business experience on this committee that he would find himself financially embarrassed at the end of a reasonable period of time if he undertook to always keep out his own notes to a larger amount than it seemed he could redeem, and whenever he would pay one would reissue it again, whether or not it was necessary to so do. He would some time come up against a settling day which would break him.

This is just the case with the policy the Government is trying to make successful. It has recently been near a settling day, and only by a narrow margin escaped disaster. I hardly think it will be as fortunate again. It certainly ought not to run the risk with the attendant consequences that would fall upon all interests in case of failure overtaking it. If, as I have stated, the evil through which our financial system entails the greatest loss is these demand obligations, there will not come from a revision of the present banking system a practical, substantial benefit to the people unless it is provided in some way to get rid of them.

BANKS SHOULD ASSUME REDEMPTION OF NOTES.

A prominent feature, as I have said, in all of these different bills, is a provision to this end, and I think it may be said, so far as those who have introduced the bills with such provision are concerned, they recognize that the largest benefit to be obtained in a new banking law is to get the Government out of the business of issuing credit currency and bestow such power entirely upon the banks, making the banks maintain not only the current but the permanent redemption of their notes in gold. I think the banks are fully able to do this.

Mr. Johnson. I would like to have you amplify that—that the banks will be fully capable of sustaining the burden.

BANKING BEFORE THE WAR.

Mr. ECKELS. Up until the time of the war the banks of the country, which were not then either as strong in their financial condition or as well equipped in facilities of exchange and methods of transportation, wherever properly and honestly conducted upon safe banking principles and not as speculative enterprises, maintained not only the current and ultimate redemption of the notes which they issued, but were strong enough in their gold holdings to furnish all the gold that was needed for domestic trade and to settle international balances. They not only did this up to the time of the breaking out of the war, but for some time thereafter. Again, after the resumption of the specie payments they continued to maintain themselves strong enough in their gold holdings to furnish all the gold needed for all business purposes, but in addition so supplied it to those wishing it for any purpose that the demand obligations of the Government were not presented for current redemption.

Mr. HILL. And as a matter of fact we were more dependent upon foreign nations at that time than now?

Mr. ECKELS. Yes; very much more dependent.

The CHAIRMAN. At that point, if you want a suggestion as to the fact——

Mr. ECKELS. I would be very glad, Mr. Chairman, at any time to have any suggestion any member of the committee may desire to make.

THE SUFFOLK SYSTEM.

The CHAIRMAN. In New England, under the Suffolk system, which is generally conceded to be the best banking system on the whole we had in this country before the war, the total specie held in those banks for circulation in New England was 13½ per cent, and that would amount on $800,000,000 of circulation to $108,000,000. Their specie for loans and discounts was 3.9 per cent, and that, on the $4,000,000,000 of discounts. $1,800,000,000 of national-bank loans and discounts and $2,200,000,000 of State bank loans and discounts, would amount to $156,000,000. I think we now have of visible gold $315,000,000. I thought I would give those figures.

Mr. ECKELS. Thank you. So the only thing to judge by, as to what can be done, is that which the history of the country shows has been done. There is the fact that before the war, under the then existing State banking systems, properly conducted institutions redeemed their notes in gold, and were always furnished the gold necessary for the business interests of the country. Of course there were a great many institutions which were wholly fraudulent, and there were great losses to note holders, but that was because of the bad banking laws and the reckless and dishonest manner in which the individual banks which failed to redeem their notes in gold were conducted.

Mr. CALDERHEAD. The Government obligations were at a discount the most of the time for several years before the war.

Mr. ECKELS. I do not think the Government ever had any such obligations out before the war except in the shape of a comparatively small amount of Treasury notes during a period shortly after the war of 1812.

The CHAIRMAN. How long were those out?

FINANCIAL LEGISLATION OF THE WAR.

Mr. ECKELS. Only a short while. It will be recalled by members of the committee familiar with the financial legislation of the war that in the discussion of the bill introduced by Mr. Spalding, which authorized the first issuance of Treasury notes, it was very strongly protested by those opposed to the measure that the Government was entering upon a policy which had never been known of before, which never had been suggested in any debate or embodied in any bill, and which was then only justified by those urging it upon the ground of the pressing necessity of an extraordinary condition of affairs, necessitating extraordinary expenditures. The measure only became a law under protest, the strongest advocates of it placing their advocacy of it upon the grounds of necessity, and emphasizing the fact that as a financial proposition it was unsound and repugnant to all of the country's previous financial policy. The disbelief in the soundness of it was emphasized by a provision in the first instance that the Treasury notes thus issued and thereafter issued should be, upon presentation in certain sums within a certain period, refunded into bonds.

All of those advocating the bill, including Mr. Sherman and others, promised that immediately upon the close of the war the notes should be retired. The present Senator, then Representative from Vermont, Mr. Morrill, not only refused to support the measure, but upon every occasion was strongly against it. His frequently expressed judgment to-day is that the expenses of the war were enormously increased by the issuance of legal-tender Government paper at that time, and that it was wholly unnecessary. It was the opinion of the New York bankers—and I suppose other bankers, but I speak particularly of the New York bankers—who, up until the time of the issuance of the Treasury notes, assisted the Government in maintaining the gold payments, that they could have continued to maintain gold payments, despite the strain of the war, if Congress had not passed the first act. Secretary Chase never thoroughly believed in it, and only after repeated efforts was dragooned into giving it sanction.

GOLD PAYMENTS DURING THE WAR.

The CHAIRMAN. Mr. Coe, of New York, and two other bankers made a proposition to Mr. Chase, so I was told by Mr. Coe, that they would maintain gold payments provided they allowed the banks, by some national legislation, to issue all the currency the Government needed. They would guarantee to maintain the gold payments, but Mr. Chase thought he possibly could not carry that through Congress.

Mr. COOKE. Looking back over the history of that period, do you believe it was possible to have maintained gold payments during the war?

Mr. ECKELS. Yes. I base my judgment largely upon the opinion of those who were then most familiar with the situation. Certainly the return to gold payments was greatly delayed after the war by the failure to fund these obligations.

The CHAIRMAN. Louisiana maintained gold payments clear up to Butler's capture of New Orleans.

Mr. SPALDING. Do you think that banks could have maintained specie payments during 1893, 1894, and 1895?

Mr. ECKELS. Yes.

Mr. SPALDING. Is it not a fact that they really suspended all payments and paid only through clearing-houses?

Mr. ECKELS. Yes; many banks paid through the clearing-house.

Mr. SPALDING. Because they had no currency, much less gold?

PANIC OF 1893.

Mr. ECKELS. This thing has to be remembered in connection with the panic of 1893. There would not have been the panic of 1893 and its effect upon the banking institutions of this country if under the financial legislation of 1890 the Government's demand obligations had not been greatly increased without in anywise empowering the Secretary of the Treasury to increase the gold reserve to meet the new gold obligations. There was thus created a doubt as to whether the Government was able to maintain gold payments. If the legal tenders had not been outstanding the Government would not have put it in the hands of anybody to go to the Treasury of the United States and withdraw the gold from it.

Mr. COOKE. Then you make it a matter of national credit and not a matter of necessity. Is that the principle?

Mr. ECKELS. Largely that.

Mr. SPALDING. I do not like to interrupt you——

Mr. ECKELS. I am perfectly willing to be interrupted.

Mr. SPALDING. You put it, as I understand your argument, that the demand for gold was a speculative demand largely, or fear, or something of that kind; not an actual demand as against the national obligations abroad?

Mr. ECKELS. I think the demand came through fear of a failure of the Government's ability to maintain gold payments. The policy of the Government under the resumption of specie payment act was that, as against $346,000,000 of demand obligations of the Government, a reserve fund of $100,000,000 of gold was sufficient for the current redemption of those demand obligations.

EFFECT OF THE SHERMAN LAW.

The act of 1890 increased the amount of those obligations by $152,000,000 without in any wise increasing the amount of your reserve, and while the holders of them might believe that $100,000,000 might be sufficient for the current redemption of $346,000,000 they doubted that $100,000,000 was sufficient to provide current redemption for almost $500,000,000.

The CHAIRMAN. The basis of that discrimination, however, is this: The people were educated to believe that $100,000,000 was sufficient and believed it was necessary to have $100,000,000 for $346,000,000 of obligations. They were convinced that $100,000,000 was not sufficient for $500,000,000 of obligations, and therefore a fear created the demand for gold.

Mr. SPALDING. Is it not a fact that until trade relations changed they had this demand for gold and it was a legitimate demand to pay our exchanges abroad, and since the change of current there was no demand for gold?

Mr. ECKELS. I think there were other causes entering into it. I do not think any of these great financial disturbances are produced by a single cause, but there is always one great cause which brings many to a culmination.

Mr. JOHNSON. It is your opinion that the main reason for the drain on the gold reserve which has occurred during the present Administration was a feeling on the part of the people that the Government might not be able to maintain its credit?

Mr. ECKELS. Yes.

Mr. JOHNSON. By keeping its demand obligations at par?

Mr. ECKELS. I think that from the time of the passage of the Bland-Allison act it became evident that the Government was coining and stamping a piece of metal, calling it a hundred cents when it was not in and of itself worth one hundred cents. It was dependent upon something to make it of that value, and when to this was added the further tendency to do the same thing through the operation of the Sherman law and the purchase of silver, these acts combined caused doubt in the minds of those who were dealing with us abroad and doubt of people at home as to the ability of the Government, with the limited powers of the Secretary of the Treasury, to maintain, what the Sherman law said was the policy of the Government, the parity of the two metals and to redeem the Government's demand obligations in gold.

Mr. JOHNSON. Another question. What has caused the stoppage of the demand on the Government for redemption; and is it likely to occur, and if so, under what circumstances?

SINGLE GOLD STANDARD.

Mr. ECKELS. It is likely to occur whenever the public mind is again put in a condition which makes it believe that this Government is not going to maintain the single gold standard of value, or is not going to be able to maintain gold payments of its outstanding obligations.

Mr. JOHNSON. Do you think it ceased because the public mind was reassured on that point?

ELECTION OF 1896.

Mr. ECKELS. I think it has ceased, because the repeal of the Sherman law has given the public to understand that unless some further legislation is enacted we have gotten to the end of increasing the money of the country with a dollar which in and of itself is not worth a dollar. I also think the fact that the recent election was against those advocating the free and unlimited coinage of silver has done very much toward stopping the presentation of these demand obligations. The situation has further been relieved because, owing to the peculiar condition of affairs abroad, there has been a great demand for our breadstuffs, whereby very much gold has come into the country. A large portion of it has gone into the Treasury. It is safe to say, however, that whenever we come again to the point where, through overspeculation and overtrading, business disasters follow, or because of some bad piece of financial legislation the credit of the Government becomes a matter of public discussion, these demand obligations, unless paid and canceled. give the means to continually embarrass the Treasury Department and create still greater adverse conditions in the country's business world.

Mr. FOWLER. Suppose in the next six months the fortuitous circumstances which are in our favor should turn against us and there should be a natural demand for $100,000,000 of gold; where would they go to get that?

Mr. ECKELS. They would go to the Treasury, because we do as no other country in the world does. The operation of the law makes the Treasury

of the United States the one source of supply not only for all the gold that our own people want but for the people of every country in the world who wish to send here and buy it.

Mr. FOWLER. If they withdrew the $100,000,000 out of the Treasury, what would transpire?

SILVER REDEMPTION, REPUDIATION, OR MORE BONDS.

Mr. ECKELS. We would be compelled to redeem the obligations of the Government either in a depreciated metal or else to repudiate them or else to again do what the present Administration has done, sell more bonds to maintain the gold reserve.

Mr. JOHNSON. If there was any way of getting the Treasury divorced from the banking business and the bank issue was devolved upon the banks, they would go, under this condition, to the banks?

Mr. ECKELS. Yes.

Mr. JOHNSON. And your opinion is that the banks would be as able as the Government to do it?

Mr. ECKELS. Yes, more able. The reason the banks are better able than the Government is simple. The Government has no proper machinery for banking. A bank has all the machinery for obtaining credit and buying gold. It can discount its bills; it has, if well-conducted, all the methods of obtaining gold wherever it is necessary, and at a moment's notice. During the panic of 1893, the banks in Chicago, for instance, were able to send to London and Berlin and get gold, just as the banks of New York last year had the machinery which enabled them to obtain the gold to place in the Treasury in order that it might maintain the necessary gold reserve. All this the Government of the United States could not do unless it issued bonds, not having the machinery which attaches to a bank.

Mr. HILL. The banks in New York have a call loan on $50,000,000 of gold in London.

Mr. FOWLER. In regard to this $100,000,000 of gold in the Treasury, in case you reverse the situation and there was a demand of $100,000,000 made on the banks of New York, they at once would realize they would want to protect this reserve and would put up the rate of interest to hold the gold in this country and it would not go abroad?

Mr. ECKELS. That is the practice of the Bank of England.

Mr. MCCLEARY. Suppose the banks in New York had demand obligations which were payable in gold, how would the rate of discount affect that?

Mr. ECKELS. Of course it would not affect the presentation of its notes.

Mr. MCCLEARY. Would it not put the bank in exactly the same condition as it would put the Government with the notes issued?

The CHAIRMAN. You can not do that; this does not put them in the same position of the banks.

BANKS WOULD MAINTAIN GOLD REDEMPTION.

Mr. ECKELS. I think you would find this: As against their notes of issue the banks would, from their knowledge of the usual amount of current redemption, maintain the necessary amount of gold for the redemption of those notes, just as a bank is now able to know how much of a reserve it is necessary to have in bank as against its deposits. Every prudently conducted bank would be compelled for self-protection to maintain a proper reserve, and the notes issued by the bank would

be redeemed, and they would not be issued, as in the present case, unless there was a demand for them.

Mr. SPALDING. That would contract the currency?

Mr. ECKELS. The banks would contract the currency whenever necessary, and they would enlarge it when necessary. It is a great mistake to think that it is a possible thing for banks to prosper by doing those things which tend to make the general public poverty stricken, and by doing things which tend to make depression everywhere.

Mr. MCCLEARY. That is, that there are no adverse relations?

BANKS DEPENDENT ON GENERAL PROSPERITY.

Mr. ECKELS. There can be no adverse relations. The prosperity of the banks depends upon the prosperity of the people, just as the people of one section of the country are dependent for prosperity upon the prosperity of the people of another section of the country. Their relations are mutual. Thus it would follow that no bank would ever contract its currency, even though it had the right to do so, if it was apparent that by so doing there would be a general financial derangement of the country and general business confusion. When such a point was reached the banks would have reduced themselves by their own act to a position where they could not collect their assets, where there could be no demand for their money, and consequently no profit in the banking business.

An aggregation of people into a corporation does simply the things which an individual would do in his own private transactions. As an individual he does the thing which will mean prosperity to him, knowing that prosperity can not be possible if those holding his property are unable when he wants that property to return it, and he knows that such debtors are not able if there is a general financial depression.

Mr. COX. While on that point I want to call your mind to one thing. As stated by you, and has been stated before this committee ever since I have been a member of it, there has been an effort all along the line to control these demand notes in some shape and keep them away from the Treasury?

Mr. ECKELS. Yes.

Mr. COX. When you come to think of it there is but one of two ways to do that, as I see. First, they have to be retired, and you issue bonds to take them in, or you can use them as the basis of banking. That is the Secretary's idea?

Mr. ECKELS. Yes, and that is to an extent the chairman's idea.

Mr. COX. I was going to put this question to you——

The CHAIRMAN. I did not hear that question.

Mr. ECKELS. I say that is to some extent your idea.

The CHAIRMAN. Not as a basis for circulation, but to be retired through the banks.

GREENBACKS AS A BASIS FOR BANKING.

Mr. COX. To bring out my point: Is there any serious objection and can there be any serious objection to using these demand notes as a basis of banking? Now, is there any serious objection—of course always looking to the line of contraction which can be very easily avoided—is there any serious objection to using these greenbacks as a basis for banking and holding them away from the Treasury?

Mr. ECKELS. It would simply be imprisonment for life, with the attendant danger to the people of pardon instead of direct execution.

The CHAIRMAN. Is it not a fact that whenever money accumulates in the Treasury for any purpose whatever there is a large section of the country that desires that money should be paid out: and is not there a demand that even silver dollars be paid out? Is not that a very serious objection to holding legal-tender notes in the Treasury—the people's demand that they be paid out?

Mr. ECKELS. Yes. I think this, Mr. Cox, that if in connection with your suggestion there was a law upon the statute books that these demand obligations of the Government could be used as a basis of banking and that when a bank went out of the system the Government should redeem and permanently cancel them, or when there was a reduction of the circulation of the banks that so much of the demand obligations held by that bank as were affected by the reduction could be paid and canceled, the difficulty on the score mentioned by you would be obviated.

Mr. COX. Of course, the idea is to prevent them from getting back again and going into the Treasury. That is the object.

Mr. ECKELS. That I suppose would be a practical thing, but it is already an admission that the further maintenance of these issues is a wrong thing.

Mr. COX. I must say, with due respect, I can not see any difference in banking on the promise of the Government to pay in the shape of greenbacks and the promise of the Government to pay in the shape of bonds.

Mr. ECKELS. Except this, a Government bond runs for a definite period of time, payable at such a time, while under the existing law the legal-tender note is a continuing obligation which is never permanently redeemed and canceled.

Mr. COX. That is true, but it is assumed the bonds will be paid, and that you have then got nothing upon which to base your circulation.

BONDS AS A BASIS FOR CIRCULATING NOTES.

Mr. JOHNSON. What is your opinion of the bond security under the present national banking law? Do you think it ought to be perpetuated in any new system of banking and currency which may be devised, and if not, what would you suggest for a substitute which would give a safe circulating note?

Mr. ECKELS. I think as a correct, scientific banking principle the issuing of bank notes against bonded securities is erroneous. Anything which makes the volume of circulation depend upon reasons other than the needs of business, and which regulates it in any other wise than through the daily needs of business and commerce, is not a true banking principle.

Mr. COOKE. Does not the element of good security come in there, of necessity?

Mr. ECKELS. Of course there is that, but in all the bills which have been given me the fact is recognized that the people of this country are used now only to bank notes issued against securities. Mr. Walker's bill, Mr. Hill's bill, Mr. Cox's bill——

The CHAIRMAN. Mine provides a guaranty of the Government.

Mr. HILL. I have an optional feature in the last bill presented.

BANK NOTES ISSUED AGAINST CREDIT.

Mr. ECKELS. Some of the bills have introduced both the element of note issues against security and that of note issues against credits. I

think that as a practical feature of any banking law which is to be presented to Congress you will have to recognize certain conditions and habits of mind which prevail in this country. These conditions will have to be observed in order to make any bill accepted by the public and the bank notes issued by virtue of it given complete confidence. The majority of men in business now do not know anything about a bank note in this country except as it is a secured bank note. Therefore I think at the outset there will have to be maintained securities against the largest portion of the issue of notes or else a Government guaranty as good as a bonded security. And then, in addition to this, for the purpose of giving play to what is termed the necessary elasticity of the currency, there could be very properly issued a certain percentage of notes, regulated by a tax, against the credit of the bank.

Mr. JOHNSON. Over and above the amount of security?

Mr. ECKELS. Yes; over and above the amount of security.

Mr. MCCLEARY. An emergency feature?

Mr. ECKELS. It might be taken out at any time the banks would be willing to pay the tax.

Mr. FOWLER. Is it not true, as years come and go, that such notes would normally and naturally be needed for all the more sparsely occupied regions of the country and might not at all be needed where there is a large amount of money deposited?

BANKS ARE CONDUCTED FOR PROFIT.

Mr. ECKELS. In preparing any banking bill I think as a practical thing it must be considered whether or no it will be generally adopted. It would be difficult to have it successful if it is not acceptable to the banking interests which it is proposed shall go into the system. There is, of course, much talk about the prejudice of the people against banks and against banking interests, but the fact is the business of this country is conducted through its banks. These banks are not institutions conducted in whole or in part for philanthropic purposes any more than any other business enterprises. The men who go into the banking business go into it because there is for them a margin of profit in it, and they go out of it whenever there is no margin of profit, just as a man goes into the grocery business when there is profit in so doing, and goes out of it when there is no profit.

Mr. BLACK. I would like to ask this question: As I understand it, in your opinion the impairment of the Government's credit during these periods of agitation has contributed more than any other one cause to the present condition?

Mr. ECKELS. Yes; that, in my view, has been the cause which has brought to a head all these other things.

Mr. BLACK. How does that consist with the fact that whenever the Government has offered its obligations they have been disposed of at very good rates? Is the Government's credit very seriously impaired?

Mr. ECKELS. In the mind of the general public, especially people who are dealing with us abroad, there was seriously a doubt as to whether the Government could maintain the indefinitely repeated payment of gold for its demand obligations.

Mr. BLACK. Has there ever been a period when those people hesitated to take the Government obligations at reasonable rates?

Mr. ECKELS. Oh, no. I think the people generally have been willing to accept the bonded obligations of the Government because they ran for a definite period of time. There is a great difference as to whether the Government twenty years from now can put itself in condition——

Mr. COOKE. There is another element—they pay an income?

Mr. ECKELS (continuing). To meet the bonds payable at that time and whether it can to-morrow, with $100,000,000 of gold in the Treasury, redeem more than $480,000,000 of demand obligations if they were all presented. This difference is accentuated by the knowledge that the payment of a bond means payment and cancellation, while the payment of a demand obligation of the Government under the law means but the necessary preparation to start it out again to be returned for repayment, and so on indefinitely.

Mr. BLACK. You make a distinction between demand and bond obligations?

Mr. ECKELS. As affecting the credit of the Government, yes.

SILVER REDEEMABLE IN GOLD.

Mr. BLACK. After you had retired the greenbacks, would you make the silver we now have—I am not speaking now of any further coinage of silver, but would you make the silver we now have redeemable in gold?

Mr. ECKELS. I do not see how the Government could do anything different as long as it declares through legislative enactment it is the policy of the Government to maintain the parity of the two metals.

Mr. BLACK. Then you would make the silver they now have redeemable in gold?

Mr. ECKELS. I think it is incumbent upon our Government to maintain the parity of the two metals.

Mr. COOKE. If the impairment of the confidence of the country and of the world in our currency brought about or started the working of this endless chain, why did not that occur during the fourteen years from 1878 on, when we were buying this enormous quantity of silver?

Mr. ECKELS. For the simple reason, Mr. Cooke, that at that time there were but $346,000,000 of demand obligations of the Government which in the public mind were redeemable upon demand in gold, while by 1893 there had been added $152,000,000 more, without any increase in the means or improvements in methods of meeting the increased liabilities.

Mr. COOKE. Your idea is that there was a culmination of the conditions which is applicable to it?

Mr. JOHNSON. And the act of 1890 had been passed.

Mr. ECKELS. Yes; but it is known that from the passage of the Bland-Allison act there had been more or less discussion of the ability of the Government to maintain itself and to maintain its silver at a parity with gold.

Mr. FOWLER. The terms of that act did not provide they should be redeemed in coin.

Mr. JOHNSON. The gold in the Treasury fell off perceptibly after the passage of the act of 1890; that is, receipts of gold for duties on imports?

HOARDING GOLD.

Mr. ECKELS. For the reason, among other things, that people preferred to hold or hoard their gold.

Mr. COOKE. Why did they prefer that?

Mr. ECKELS. For the simple reason that they knew if they had a gold dollar it was a gold dollar, and if they had a paper demand for a dollar in coin they did not know, in the first instance, whether the Government would have the gold with which to redeem it, and in the

second instance they did not know but that it might be redeemed in silver worth, without a gold support, but 50 cents.

Mr. JOHNSON. The demand for the redemption of notes by the Treasury commenced during the last year and a half of Mr. Harrison's Administration, did it not?

Mr. ECKELS. It commenced immediately after the passage of the Sherman silver act. But, Mr. Chairman, the fact is, when that bill was under discussion there was not a prominent financier in Europe and scarcely one in this country who did not discuss the question and point out how disastrous the outcome would be. Some of the foreign correspondents, particularly one of the German correspondents for one of the leading papers in Berlin, pointed out to a certainty the thing which actually came to pass, namely, that within three years the law would so work as to produce a fall in the price of silver, an impairment of American credit, and a widespread panic. The actual fact is that at the time of the contract with the syndicate for a bond issue—a bond issue which has been more criticised than any other made by this Administration—there was but $8,000,000 of gold coin at the command of the Treasury. With such an extreme state of affairs it was no wonder the people thought the Government was not going to be able to maintain the parity of the two metals.

Mr. SPALDING. There was no raid the next day after the contract was made?

Mr. ECKELS. No, for it was known the preventive measure had been taken.

FISCAL OPERATIONS CAN NOT BE CONDUCTED ON SENTIMENT.

In this connection permit me to say that a great Government's fiscal operations can not be conducted simply upon patriotism. They can not be conducted upon sentiment, either. The Government has no right to put itself in a position where it is either a mendicant asking aid from outsiders, or a weakling at their mercy. You may think and I may think it is a bad thing of those who have demand obligations at home to present them at a time when the Government is embarrassed, yet, from a business point, they are not to be blamed. The Treasury Department ought always to be in such a condition that it would not depend upon sentiment, would not depend upon patriotism, and would not find it necessary for its protection to have the citizen eliminate all the elements of selfishness when he comes to deal with it. It ought to be exactly on the same footing as any other business establishment, ready and willing to pay the Government's debts without asking leniency from any of its creditors. It certainly ought not to insist on furnishing the means for its own destruction voluntarily and then complain if those means are employed and danger is threatened.

Mr. HILL. You were considering the question of a bond guaranty for currency. So far as that guaranty is concerned, which would be the best guaranty, currency or bonds, if such a system is to be adopted?

Mr. ECKELS. Well, I think it amounts to the same thing. There is no difference. Both depend for safety upon the financial ability and willingness of the Government to maintain its obligation.

Mr. HILL. There is a difference between a demand guaranty based on a Government debt, the actual bond of the United States Government——

Mr. ECKELS. Only as I have explained, a technical one, so far as security to the note holder is concerned.

THE CANADIAN SYSTEM.

Mr. HILL. There is a guaranty in Canada, is there not?

Mr. ECKELS. The conditions here are different from the conditions in Canada. The Canadian system, while very good in Canada, would require a good many amendments to apply here. Here banking would necessarily deal with a larger territory and a great many more interests.

Mr. SPALDING. Would you deem it advisable, in the event of an extension of circulation to the par value of the bonds under the present banking system, that they should be compelled to keep out a certain amount of circulation?

DETERMINING THE VOLUME OF CURRENCY NEEDED.

Mr. ECKELS. No; I think that is also erroneous. It seems to me it must be recognized that if the banks are to issue the currency they must themselves determine how much of a volume is needed from time to time. The banks can always be depended upon to keep out every dollar they can use profitably. They can only use a dollar profitably when the people want it and have security to give to obtain the loan of it. Thus any law which established a hard and fast line as to how much the banks shall keep out would defeat the very purpose which it is desirable to reach through a banking law. Under the operations of it, it is impossible to have the currency issued to meet the varying wants of trade and commerce from day to day.

Mr. COX. I want to call your attention to this thought. Now, it is admitted, and there is no way of avoiding it, that the duty of the United States Government under the present system would be to redeem the silver in gold if it is demanded.

Mr. ECKELS. I think so; I do not think there is any question about that.

Mr. COX. There is no doubt about that?

Mr. ECKELS. No.

Mr. COX. You issue bonds as you take up these demand notes and cancel them. You think that would obviate the necessity of keeping any reserve for the redemption? Now, let me call attention to this fact, would not you be under the necessity of holding a reserve for the redemption of the silver?

Mr. ECKELS. I would not say it would obviate all the necessity, but I think if you made a beginning, showing that the policy of the Government was to curtail these issues instead of following the policy of increasing them, it would go a long way toward ridding the country of the difficulty.

Mr. COX. You do not think it would be complete?

LEGAL TENDER RETIREMENT THE FIRST STEP TOWARD RELIEF.

Mr. ECKELS. No; I think it would be simply a step. The country has gotten itself into a very bad situation, and some time it must make a start in the right direction to get out of it. The first step to that end would be to pay, retire, and cancel legal tenders, and then give to the banks the right of issuing all credit currency. The right to issue should carry with it and place upon the banks the duty of redeeming in gold the obligations which they put forth.

Mr. MCCLEARY. I come back, as you have the happy faculty of

expressing things, to the elementary question, and in asking it I put a question which is in the minds of thousands of people who are studying this question and who have not an opportunity to ask it of you themselves, Wherein is the difference between your bank redemption, if it is a demand obligation, and the Government redemption, if it is a demand obligation?

CREDIT CURRENCY.

Mr. ECKELS. The only difference is that it is not the business of the Government, nor is it wise for it, to issue credit currency. No Government has ever yet successfully done so. As stated by Mr. Walker, when there is placed in the hands of the Treasury Department, in a Congressional enactment, the issuance of credit currency it is made a continual subject of Congressional legislation. Through the operation of such a law there is created in the minds of people the idea that somehow the Government can create values. It is made possible to have issued a volume of currency which would be so large in volume that the Government would not be able to redeem it. If it is taken from institutions which are organized with all the machinery for regulating the volume and providing for its redemption, a function which experience has shown they best are able to meet, and given to the Government without such machinery, it becomes a question of doubt whether in the continuing change of political parties there will not always be a change in the amount of currency to be issued or the amount to be retired, and the character and value of the same.

Mr. MCCLEARY. Then the difference is circumstantial rather than essential?

Mr. ECKELS. The difference is circumstantial, but the circumstances are so strong that the history of all financial operations demonstrates that no Government has ever successfully accomplished it. Whenever Governments have undertaken it the end has always been a loss to the people.

The CHAIRMAN. Let me ask this question. You said this is circumstantial. I want you to elaborate that, because those words alone would be entirely misleading.

Mr. ECKELS. If you will state your question, Mr. Walker?

The CHAIRMAN. Is it not a fact that there is no conceivable way for a Government to issue currency directly except by purchasing things that the Government consumes in some form?

Mr. ECKELS. Yes, that is true.

The CHAIRMAN. Secondly, when a bank issues currency, instead of buying something it sells something, or rather it sells and buys; it sells something—its capital—for a greater sum than it buys the same thing back for at a subsequent period. Is it not a fact that when a bank issues currency it has on the property of the signer and indorser of the note for from $10 to $100, or any sum, a guarantee for the return to it of a larger sum than it sells, and uses the payment directly or indirectly to redeem the very thing, while the Government has nothing to redeem with? The Government has consumed it in salaries, etc.?

Mr. ECKELS. Yes, I think that is so.

The CHAIRMAN. So that the bank has a larger sum to redeem its notes whenever they come to be redeemed than it gave when it gave them out, and the Government has absolutely nothing?

Mr. ECKELS. Yes, I think that is so.

The CHAIRMAN. Those are the circumstances to which you refer?

Mr. ECKELS. And the other circumstance which is a factor is the circumstance of the bank having the machinery.

The CHAIRMAN. The bank has the machinery and has the wealth to redeem the notes.

Mr. ECKELS. There is another point to be considered. With all due deference to the ability of those who have to do either with the making of the laws or those who have to do with the administration of them in the Treasury Department, legislators and Treasury officials have not all the required facilities for knowing the amount of currency needed and the time at which it is needed, that the banking institutions of the country have. These institutions are not massed in a single locality, but are located in every portion of the country.

Mr. McCLEARY. That is a part of the circumstances?

Mr. ECKELS. That is one of the circumstances and one of the strong facts.

Mr. McCLEARY. I did not, perhaps, make my question clear to you. Granting the fact that there is a certain issue of demand loans outstanding, granting something arises to call for redemption of those demand notes, where is the redemption by the bank different from and better than the redemption by the Government?

NOTE ISSUING NOT A FUNCTION OF GOVERNMENT.

Mr. ECKELS. Simply this, Mr. McCleary, the banks can better protect themselves than the Government. The Government to protect itself must go through all the details of issuing bonds, the advertising of its impoverished condition, the stirring up of people on the subject of the creation of unnecessary debt, the substituting of an interest-bearing debt for what they term a noninterest-bearing one, and the making of a political issue out of a business proposition and necessity. I do not believe note issuing is one of the functions which the Government can, for the best interest of the people, properly exercise. There are many functions of government which State and city corporations deriving their power from the people might rightfully exercise, but which, for purposes of public policy and for the purpose of contributing to the best interest of the individuals, they grant to corporations or individuals who, under the circumstances, can better carry them out. Undoubtedly circumstances might arise where a city could do better if it maintained its own electric-light or gas plant. There are other circumstances which would arise which would make it unprofitable for a city to go into this sort of thing. As a rule, however, it seems to me the business of the Government is to do only those things which can not best be done by the individual, either in his individual capacity or through created corporations.

The CHAIRMAN. Let me ask one question. Is it not a fact that the Government can not successfully issue greenbacks, paper money, unless it does all the other things that banks do and which make it safe for banks to do it?

THE GOVERNMENT AS A BANKER.

Mr. ECKELS. Yes, I do not think there is any question about it. The Government to do these things successfully must have of its Treasury Department a complete bank. See what this Government has. This Government has a Treasury Department issuing its promissory notes like a bank of issue without the Secretary of the Treasury, its governing

power, being given unquestioned power in law to redeem them or protect the Treasury's credit. More than once the point has been raised in Congress that he has no legal right to issue bonds for such purpose, and the same thing was seriously discussed in more than one speech during the last campaign. Upon the one hand, it thus appears that the Government is a bank of issue denied essential powers, while on the other it is, because of the subtreasury, a bank of deposit equally deficient in every necessary essential to such a bank. It takes, through this system, out of the channels of trade and commerce large sums of money every day and locks them up. It does not disburse these sums, as banks of deposit do, and in consequence works a dangerous congestion and contraction of needed funds, which not infrequently must be disbursed at great loss to the Treasury. When the note-issuing functions of the Government are vested in institutions created for the purpose of dealing in debts, lending credit, obtaining credit, maintaining credit, and issuing and redeeming bank notes, much has been accomplished, but the advance can be made still greater by abolishing the subtreasury and having the fiscal operations of the Government conducted in a way that does not arbitrarily take out of the needs of commerce the large sums which it now does.

As it is to-day, I repeat, the Government's Treasury is a bank of note issue without a single element of note-issue power necessary to the maintenance of it, and a bank of deposit without a single essential element to a bank of deposit. As a result of these two features the Government's fiscal operations have become the largest factors in the private fiscal operations of every private individual. No private individual in this country undertakes to conduct large operations until he has tried to ascertain what the Government is going to do in its financial operations.

Mr. FOWLER. If you will allow me, I do not think you just answered the point Mr. McCleary wanted to cover, and that is, why can the banks better maintain these redemptions than the Government, and the point, as I understand his question, is this, that if the Government has \$100,000,000 of gold to maintain \$500,000,000, the banks to maintain the \$500,000,000 must have \$3,000,000,000 of the assets of the banks?

Mr. ECKELS. I think that is embodied in the reply that they have the machinery for doing it and the Government has not.

The CHAIRMAN. It has the wealth.

Mr. ECKELS. Wealth is part of that machinery.

The CHAIRMAN. Wealth is the machinery—the various forms of wealth.

Mr. FOWLER. Machinery produces wealth.

Mr. MCCLEARY. If they did not have the gold they would have to get it.

Mr. ECKELS. They could get it because they have the means which causes those who have the loanable and investable capital to believe and know that that money which they are asked to loan to the banks will be returned to them.

Mr. COOKE. Look at it in this light. Suppose there was a strong tendency of gold to leave the country, can the bank get hold of that gold easier than the Federal Government, assuming that the volume of export is going to be largely of gold?

Mr. ECKELS. Yes; for the reason that the banks can immediately offer to those who are to come into possession of that gold, or who are obtaining it, a rate of interest which makes it more to their advantage to keep the gold here than to send it abroad.

GOLD GOES WHERE IT IS NEEDED.

The CHAIRMAN. I want to call your attention to a fact, in order to base my question upon it, that of the imports and exports of gold, not having the effect to protect the balance of trade, so far as England is concerned, or any foreign country, so far as we know, in 1887 we increased our gold holdings here $66,000,000; in 1888 we increased it by $58,000,000; in 1889 we lost $18,000,000; in 1890 we gained $27,000,000; in 1891, the next year, we lost $34,000,000; in 1892 we gained $33,000,000; in 1893, the year of the panic, we lost $57,000,000, and the next year we gained $35,000,000. In those six years we lost $103,500,000, and we gained $95,500,000, which shows we only lost during those years about $8,000,000 of gold, and we have gained in 1895 and 1896 very many times more. Now, I want to ask if it is not a fact that it certainly will return when there is an economic demand, without any reference whatever to trade or trade balances? Does it not always go to those places where the rates of interest are above the normal and leave those places where the rates are below the normal? Is not that shown by the experience of the Bank of England?

Mr. ECKELS. There may be other circumstances——

The CHAIRMAN. I am supposing circumstances to be equal as to confidence.

Mr. ECKELS. Circumstances being equal as to credits.

The CHAIRMAN. As to the confidence in its return and the rate of interest, the rate of interest settles it?

Mr. ECKELS. There may be exceptional cases.

The CHAIRMAN. Did you ever hear of one?

Mr. ECKELS. Where the gold does not go to the place——

The CHAIRMAN. Which has the higher rate of interest?

Mr. ECKELS. I suppose there may be cases, but as a general rule it goes to the place where the rate of interest offered is the highest and where the probabilities of its returns are best.

SCARCITY OF CURRENCY IN RURAL SECTIONS.

Mr. JOHNSON. I want to ask a question on another branch of the subject. There are certain sections of the country known as the rural or agricultural sections where there is a great scarcity of money with which to effect the ordinary exchanges of the people and where at certain seasons of the year known as the "crop moving periods" money can not be obtained for marketing the crops, except with great difficulty and at a very high rate of interest. Now, what I want to ask you is, do you hold the banking and currency system in any degree responsible for this; and if so, what remedy would you suggest?

BRANCH BANKS.

Mr. ECKELS. I do not think that the banking and currency conditions of the country are so much responsible for that, as I believe the people lack credit or the means and channels through which to obtain credit. Mr. Gallatin, Secretary of the Treasury, said, when some one spoke of the lack of money, such persons generally meant that for them there was a lack of credit, or else they had not the thing which entitled them to credit. There are many sections of the country which ought, with that which they have, to obtain credit, but they have not the means of having the fact brought to the attention of those who have loanable

money. I would reach these classes by the branch banks which would do a deposit and discount business. Very many of them can not be reached by independent banks, for many of these communities have not sufficient surplus capital exclusive of the requirements of their ordinary business needs to furnish the capital of a bank, and therefore they must depend upon having that capital brought from the outside. Branch banks would be the means of importing such outside capital and of lowering prevailing exorbitant rates of interest.

Mr. JOHNSON. You know that this scarcity of money prevails in some sections of the country where the people have property to exchange, and where there is a great necessity of effecting the exchanges?

Mr. BLACK. Will you allow me in that connection to state as a fact that I know sections of the country where, if you go to the bank with its own stock, worth on the market from $165 to $170, or with a United States bond, you have got to pay 8 per cent interest for money, when in other sections of the country with the same security you can get it for 4 or 5?

Mr. JOHNSON. I am told that the rates are even higher in some localities than 8 per cent?

Mr. ECKELS. That arises because there is no loanable capital there.

Mr. SPALDING. Is it not a fact that in large rural districts where cotton, wool, and all farming products are raised, the farmer wants the currency and he takes the currency and the currency becomes very scarce, and it has to be transported into those places in order to supply their needs?

Mr. ECKELS. There is another reason, I think, that enters into it. Mr. Johnson, or some member of the committee, said that he knew of a condition of affairs where there were people in a community that had very large amounts of money, or individuals had——

Mr. BLACK. Had large amounts of security.

Mr. JOHNSON. Had property and security, and wanted to effect exchanges, but there was a scarcity of money—the people could not get it.

Mr. ECKELS. I think the remedy for this condition would be found if in communities where there is a great scarcity of money—that is, no single individual has more than a very little—there were banks established of deposit and discount, and the people of such communities used these banks for the deposit even of the small sums which they have. The aggregate of these would make a large number of dollars, each one being in active use at all times instead of remaining idle. It would soon come about that instead of paying for produce and property by the transfer of currency from hand to hand they would give in lieu checks and credit instruments. In this way every dollar, instead of bearing a single transaction would bear a great many transactions and become an efficient dollar. There are mnay things no banking law, no matter how excellent, can remedy. Every new country has to pass through a period of inconvenience arising from the lack of proper facilities for bringing about the exchange of property. It is beyond the power of the law to do at once that which can only come about in time and favoring physical conditions. There must always be sparsely settled communities which will suffer from the inconveniences which Mr. Black speaks of having seen and of which other members of the committee are cognizant.

Mr. JOHNSON. What I am trying to get at is this. There is undoubtedly a lack of distribution of currency throughout the country, and there are many communities, agricultural communities, in which there

is property which the owners and holders desire to exchange, but they have not the money with which to effect the exchanges, and there are communities in which at certain times they want to use a great deal of money—for instance, they want to make improvements out of the usual line or they want to move the crops—and yet they can not get the money except at an extraordinary rate of interest. Now, is not the banking and currency system, as it now exists, responsible for this scarcity of money and this high rate of interest?

Mr. ECKELS. I think not, except that these people, if given banking facilities, which I think can only be given them by branch banks or banks of smaller capital——

Mr. JOHNSON. What good would it do to offer such localities a bank or a branch bank if there is not sufficient prospect for profit to induce the people to avail themselves of the offer and establish the bank there?

Mr. ECKELS. Because those branches would take from the parent bank the amount of money needed in that community to transact the business. Such a community, it would be found, would not possess capital to establish an independent bank, and therefore if it was not imported it would be obliged to get along without any bank.

Mr. JOHNSON. But if there is no profit on the circulation of the notes they would not——

NO PROFIT TO BANKS ON CIRCULATION.

Mr. ECKELS. The profit of a bank in this country is not on the circulating notes; the profit of a bank is on the discounts and deposits.

Mr. JOHNSON. I know, but there must be some profit on the circulation of the note in order to induce the bank to issue them?

Mr. ECKELS. The branch banks would undoubtedly circulate there the notes of the parent bank or gold.

Mr. JOHNSON. It is alleged, and justly alleged, against the existing national-bank law, is it not, that it discourages the issue of circulating notes by not affording sufficient opportunities to the banks for profit on the circulation? What good, then, would it do these communities to which I have referred to establish national banks there, with the provisions for issuing notes as they now are? What I am driving at is this, will not this lack of money in these agricultural communities be much more likely to be supplied if a system of banking and currency is devised whereby the issuing of the circulating notes by the bank is made less expensive to the bank than it is under the existing system?

Mr. ECKELS. I think that is so. The fact that there is no profit in circulation is the reason why the banks do not take more out.

Mr. JOHNSON. The more profit on the circulation the more likely that banks will be established in these localities. They are not going to be organized as banks of issue when there is no profit to be made out of circulation.

Mr. ECKELS. But I think if branch banks were established they not only would bring in outside capital, but in every community, no matter how poor it is, a large amount of money would go into these banks as deposits and thereby increase the loanable capital of that community with a corresponding reduction in interest charges to borrowers.

Mr. FOWLER. I would like to put a case which has been brought to my attention. A gentleman who was traveling in Iowa told me this last fall that they had an enormous corn crop, a fabulous crop, but an early frost came on that country, damaging a great portion of that crop, making it what we call soft, and therefore in an unsalable condition

and the only way to save that corn was to buy steers from Idaho and such portions of the country and bring them into Iowa and feed them with this soft corn, and it was absolutely impossible for those men to borrow any money in the State of Iowa with which to buy the cattle and feed them, although it would be the best security in the world, and hence this immense crop of corn, so far, at least, as this soft corn was concerned, is rotting to-day in the cribs of Iowa, very much to the discontent of the people.

Mr. ECKELS. There are things you can not regulate by law and you cannot make people do by law. One of the great troubles of the country to-day is that every man is depending upon the law to lift him out of some difficulty or is asking the law to give him some individual advantage. The result is that he is not dependent upon himself, and thus he fails to make his individual efforts count for very much.

ISSUING NOTES OF PRIVATE BANKS.

Mr. FOWLER. Let me put the question. Suppose a farmer lived in that place, and he had 1,000 or 5,000 bushels of corn, and wanted to buy these steers, and he could not borrow the money from the banks if he were a wealthy man. Would it not have been a good exchange and to the interest of the private banks to have issued their own notes for the notes of the men who were in that kind of business, and would not the notes have been perfectly safe, and would not they thereby have saved this vast corn crop of Iowa?

Mr. ECKELS. Oh, yes; I think that is probably so.

The CHAIRMAN. Is it not a fact that where a bank issues its currency free against its assets, which was done in the Suffolk system of New England, with which you are familiar, the currency earned a rate of interest charged by the bank issuing it upon its loans and discounts, while out?

Mr. ECKELS. Yes.

The CHAIRMAN. Then, is it not true that this interest earned to the banks lessens the rate of interest for loans and discounts that the banks are supposed to charge in order to pay the same dividends on their stock?

Mr. ECKELS. That would seem to follow your proposition.

The CHAIRMAN. Let me call your attention to this fact, that in 1856 Vermont issued currency through its banks 103 per cent to its capital stock, and that was part of the Suffolk system. Now, if that was so, maintaining its full rates on loans and discounts it could loan all its other assets for nothing, except to pay its expenses and to pay the rate of interest on its capital stock that it received on its loans and discounts, might it not—that follows?

Mr. ECKELS. Yes, that too follows the statement you have made.

The CHAIRMAN. Now, New York city, in that same time, only loaned 11 per cent of currency on its capital, it having that in circulation only because it comes back to banks so quickly in cities. Now, is not that relatively the difference between the ability and probability of banks in agricultural districts being able to keep their currency out, as compared with banks in cities? That is true, is it not?

Mr. ECKELS. I think that conclusion would follow the premises you have laid down.

The CHAIRMAN. Now, to-day it appears that these same Vermont banks only issued 49 per cent in currency on their capital, and New York only 7 per cent. I want to call your attention to another thing. In Vermont, in 1856, the percentage of loans and discounts through

banks to the total of their capital and deposits was 115.7 per cent. To-day the loans and discounts to the total of their capital and deposits are only 79 per cent, showing that in 1856 the proportion to the capital and deposits of loans and discounts was 46½ per cent more than to-day. Is there any doubt about that being a hardship?

Mr. ECKELS. I should think in Vermont, now, they are able to obtain all the money they can use.

The CHAIRMAN. That is not the question. The point I make is that rates are relatively one-third higher now than in 1856. Is it not a fact that all the money that is paid into the bank other than it issues itself, paper money, that its customers do not want, but want instead to use drafts and checks, displaces the amount of their capital, that is, if the customers want to use checks, etc., rather than currency?

Mr. ECKELS. I do not exactly understand, Mr. Walker, how you mean it displaces this capital?

The CHAIRMAN. I mean to say it has decreased the ability to loan. Now, in New York in 1856 the percentage of loans and discounts in proportion to its capital and deposits was 87.8. To-day it is 96.9, so they are loaning to-day 10.4 more on the same funds under the present system than in 1856. I bring this to your attention to show you the banking system we have is working very great hardship on the agricultural districts, while it is working a benefit to the cities as compared with the country.

FACILITIES OF BANKING IN CITIES.

Mr. ECKELS. That is probably so. As I have stated, the people send their money where they can make the most on it and consider the investment the safest. They apparently make the most in the cities, or at least they know that it can always be invested by those in the cities through the banking advantages which they possess.

The CHAIRMAN. But would not the money be sent back? Under the Suffolk system the money would have immediately gone back to the banks that issue it.

Mr. ECKELS. Undoubtedly that is so, if there was a properly adjusted banking system. Give to the country the facilities of banking which under proper restrictions they could maintain, and it would be found that a large proportion of the money which now goes to the cities to obtain a very small profit would remain in the sections of the country where a larger profit could be made. Money now goes to the cities for the same reason it goes anywhere else. It goes there because the people who own it know it can be employed at a certain rate of profit and because they have the means of knowing it can be so employed. If other channels are opened, giving the same means of information as to the ability of those who are going to use it to return that which is borrowed when it is wanted, those sections of the country will be provided with the money which is unnecessary and a burden to the great cities.

The CHAIRMAN. New York has about $60,000,000 above its normal reserve. Is it not a fact that $60,000,000 is in legal tenders, Treasury notes, silver certificates, and that nothing can be done with it, there is no place to send them, but they must keep them in their banks? That is true, is it not?

Mr. ECKELS. Yes.

The CHAIRMAN. Now, if every dollar of currency was issued by the banks themselves, that accumulation never would occur, because the currency would have been sent back to the banks issuing it?

Mr. ECKELS. There is no question as to that.

The CHAIRMAN. So that under our present system there is no machinery by which to send this money back into the country where it is needed, because it is issued by the Government, and wherever it drifts there it must stay; whereas if it was issued by the banks, when paid into another bank it would be immediately sent back to the bank that issued it. Again, does it not follow necessarily that the banks, in order to make a profit on currency, would have to seek out and would seek out for their own self interest persons in their community to whom they could loan it, and who could use it, and thereby make a profit to the bank, which would in fact result in giving very much larger facilities to secure loans in the neighborhood where the bank was located, because they are obliged to loan to people to make money on their currency, where they denied them under the circumstances suggested by Mr. Fowler.

CONGESTION OF CURRENCY IN NEW YORK.

Mr. ECKELS. I think that the banks would do so, but a distinction, too, must be drawn. These large sums of which complaint is made go to New York City, not because of the legal tenders themselves, and not wholly because of the present banking system. In some measure the fact that the Government furnishes the facilities for redemption of the legal-tender issues at New York adds to the drift of those issues there; but the great cause of congestion is in the lack of banking facilities elsewhere through which money could be used more profitably than in New York or other commercial centers. Under the present banking law, unamended, many communities can not have the benefit of banks, and not having them can not obtain needed money and credit.

The CHAIRMAN. Is it not a fact that the $60,000,000 of currency lying in these banks, of which I have spoken, is because they can not successfully loan it?

Mr. ECKELS. They can not loan it successfully now because of the general condition of the times, and at all times they are more or less embarrassed to keep it in active use.

The CHAIRMAN. Then if we had this old New England Suffolk system of issuing and redemption of this currency by banks, the volume of currency paid into banks would not deplete the power to loan by these banks. They would send it back to the country banks and it would be disposed of.

Mr. ECKELS. Yes. I am agreeing with you as to the bank issuing the notes—that if they do issue the notes undoubtedly they would see to it that there was not an accumulation.

Mr. JOHNSON. Here is a point I want to make. If a banking and currency system can be devised whereby the issue of notes is less expensive than under the existing system, whereby the profit of the banks on the issue of notes is greater than it is under the existing system, will it not increase the probability that banks will be established in these agricultural sections?

Mr. ECKELS. I think that is undoubtedly true.

Mr. JOHNSON. I believe that there is a very just grievance upon the part of those living in these sections, when they say that they can not get money to meet either ordinary or extraordinary exchanges without much trouble and without paying exceedingly high rates of interest?

Mr. ECKELS. There are many such communities suffering from the inconvenience you have stated. The remedy is, wherever any remedy is possible and conditions warrant the undertaking, to establish banks,

either independent banks or branch banks. These banks would rapidly increase if it was proven that there was a margin of profit in them.

Mr. JOHNSON. And the more the expense the less the margin of profit?

Mr. ECKELS. Yes. Not the least benefit which would follow would be that through the establishment of these banks these communities have been afforded the means of bringing to the attention of the owners of loanable capital elsewhere that they have the things which justly entitles them to credit—facilities which they have not at the present time. In a great number of instances at present I have no doubt the want of these facilities, more than any other reason, keeps people who are justly entitled to credit from obtaining it.

Mr. NEWLANDS. Will you permit me—I just want to make an inquiry for the purpose of expediting business. At a convenient time I would like to ask Mr. Eckels a few questions, and now I want to know whether we are to go on with the hearing this afternoon or adjourn until to-morrow. I presume Mr. Eckels wants to get back to the office at some time.

The CHAIRMAN. That is for the committee to determine.

Mr. ECKELS. I must leave some time during the afternoon, as my deputy is absent and I must attend to some duties at my office.

The CHAIRMAN. Until what hour? Can we go on this afternoon?

Mr. ECKELS. Until 3 o'clock.

Mr. NEWLANDS. I ask that the committee adjourn until half past 1 o'clock and then resume.

The CHAIRMAN. I think we had better proceed a little further.

Mr. NEWLANDS. Then I make the motion that we adjourn at 1 o'clock until half-past 1. I think some of the committee wish to go into the House during the morning hour.

Mr. FOWLER. I second that motion.

The question was put and the motion was agreed to.

CALL DEPOSITS COUNTED AS RESERVE.

Mr. SPALDING. Is not the congestion in New York City caused largely by the fact they pay interest on call deposits of the banks of the interior, and at the same time they are allowed to count that as their reserve; and is that not one of the causes of congestion?

Mr. ECKELS. Yes. Interest on deposits undoubtedly attracts much money there which is counted as a part of the banks' required reserves. Much of it, however, goes there because the owners have no means of knowing where else to invest it.

Mr. SPALDING. It is counted as the reserves of the banks in the interior and out West, and it is kept on call, and they pay 1½ to 2½ per cent?

Mr. NEWLANDS. And in that way the Western banks utilize the reserve and get interest on it.

Mr. ECKELS. In connection with this, if we regulate or attempt to regulate the matter by not permitting them to count that as a part of their reserve, they would not have any more loanable capital at home, because they have still to carry their reserve, which could not be loaned.

Mr. SPALDING. I am not combating it, I am simply stating that as one of the factors.

Mr. NEWLANDS. Do you propose that bank currency shall be legal tender?

Mr. ECKELS. No; I would not make bank currency legal tender.

Mr. NEWLANDS. Suppose a depositor deposits money with such a bank and takes a certificate of deposit, and then demands payment of his certificate in legal tender, could the bank pay him with this currency?

Mr. ECKELS. It could pay in this currency, and the currency would be redeemable in gold.

Mr. NEWLANDS. That deposit calls for dollars, does it not?

Mr. ECKELS. Yes.

Mr. NEWLANDS. If he demands payment of gold or legal-tender money, would not he be entitled to it?

Mr. ECKELS. Yes; and he would undoubtedly get it, because no bank would permit itself to lose its credit. The competition between banks and the necessity of self-preservation through a maintenance of credit would regulate that.

Mr. NEWLANDS. The bank could not legally compel him to accept this currency in payment of a certificate of deposit?

Mr. ECKELS. I do not believe much in legal tenders, anyway.

Mr. NEWLANDS. Suppose the bank loans out its money upon the promissory note of its customer payable in dollars, would that customer pay bank notes in discharge of that note?

Mr. ECKELS. No; I think he would have to go to the bank and get his notes redeemed.

Mr. NEWLANDS. No; he would have to tender legal-tender money?

Mr. ECKELS. Yes.

Mr. NEWLANDS. And the function, I understand, of this bank currency is that it would be practically simply a bank check payable to bearer to circulate in a community?

Mr. ECKELS. Say a promissory note on the part of the bank redeemable in gold.

Mr. NEWLANDS. Now, to what extent do you expect when greenbanks are retired bank currency will be issued in this country; how many millions?

Mr. ECKELS. I think it would be issued to the extent that there was a demand for it. Every dollar which could possibly be used profitably by the people would be issued by the banks, because in this way only would a profit on note issues accrue to those who are engaged in the banking business.

Mr. NEWLANDS. In your opinion, would the aggregate issue of the banks equal the aggregate issue of the United States banks and United States Government in the shape of greenbacks to-day?

PRESENT REDUNDANCY OF CURRENCY.

Mr. ECKELS. Probably not. I think to-day there is a great redundancy of currency, but if needed it would be issued.

Mr. NEWLANDS. I understand the issue of greenbacks to-day is approximately $300,000,000?

Mr. ECKELS. $346,000,000.

Mr. NEWLANDS. And of the national banks about $200,000,000?

Mr. ECKELS. More than that; about $235,000,000 now.

Mr. NEWLANDS. Making in all about $550,000,000. Your idea is that under this new system of national-bank currency that extent would not be issued, but it could be issued if it was needed?

Mr. ECKELS. Yes, if needed. I have no doubt, however, but that a great deal of gold would come in, which would lessen the necessity of bank notes.

UNCOVERED PAPER MONEY.

Mr. NEWLANDS. Do you know of any country in the world that supports so large an amount of bank paper redeemable in gold and maintains it at par with gold?

Mr. ECKELS. Yes; I think the issue of the Bank of France is almost as large.

Mr. NEWLANDS. Uncovered paper money?

Mr. ECKELS. Oh, no; not uncovered.

Mr. NEWLANDS. What is the total amount of uncovered issue of the Bank of France?

Mr. ECKELS. I could not say definitely as to that. In England it is about £16,000,000.

Mr. NEWLANDS. About $80,000,000. And what is it in Germany?

Mr. ECKELS. I do not know certainly, but about $60,000,000. It may be larger.

Mr. NEWLANDS. Do you know how large it is in France?

Mr. ECKELS. No, I could not state positively.

Mr. FOWLER. I would like to understand what you mean by covered and uncovered currency?

Mr. ECKELS. Covered paper is the paper which has the actual coin behind it for its redemption—a special deposit.

Mr. FOWLER. For its security?

Mr. NEWLANDS. I would not call money covered money that is simply secured by bonds, or assets, or anything else.

Mr. FOWLER. Do you not know there is not a dollar of the Imperial Bank of Germany that is not secured?

Mr. NEWLANDS. I was asking with regard to that.

Mr. ECKELS. I think at times, Mr. Fowler, notes are issued by the Imperial Bank regulated by a tax——

Mr. FOWLER. And not covered by a single dollar, coin or collateral?

Mr. NEWLANDS. I observe in the report of the Director of the Mint that the uncovered paper money of England is put at about $80,000,000—that accords with your statement; that the uncovered paper money of Germany amounts to about $125,000,000, I can not recollect the exact amount; and the uncovered paper money of France and the Bank of France amounts to less than $125,000,000. Now, is the report of the Director of the Mint correct in that statement? Have you ever examined it?

Mr. ECKELS. Yes, I suppose it is. He makes up those figures.

Mr. NEWLANDS. Do you know any other countries that are able to maintain their paper money at par with gold outside of such small countries as Belgium, Holland, and possibly Switzerland?

The CHAIRMAN. Do you know what portion of the money is covered by gold and silver in France?

Mr. ECKELS. No, I do not.

Mr. NEWLANDS. Russia, the Director of the Mint states, has about $500,000,000 uncovered paper money. Do you know whether or not it is kept at par with gold?

Mr. ECKELS. No, I think it is not at present.

Mr. NEWLANDS. How much of a discount?

Mr. ECKELS. Well, I do not know just the exact figures.

Mr. SPALDING. About 50 per cent compared with gold.

Mr. NEWLANDS. Austria has something less than $200,000,000 of uncovered paper money, according to the Mint Director's report. Is that money kept at a par with gold?

Mr. ECKELS. No, there is a discount now, as I remember.

Mr. NEWLANDS. Do you know how heavy a discount?

Mr. ECKELS. No.

Mr. NEWLANDS. Italy, according to the Mint Director's report, has quite a large amount of uncovered paper money. Do you know whether or not that is kept at a par with gold?

Mr. ECKELS. No.

Mr. NEWLANDS. Do you know what the discount is?

Mr. ECKELS. No, I do not.

Mr. NEWLANDS. Do you know what amount of uncovered paper money Spain has?

Mr. ECKELS. No; but there is a considerable amount.

Mr. NEWLANDS. Is that kept at a par with gold?

Mr. ECKELS. No.

Mr. NEWLANDS. Do you know what the discount is?

Mr. ECKELS. No.

Mr. NEWLANDS. I have not the Mint Director's report before me; if the secretary will kindly get me the copy of the Director's report——

Mr. MCCLEARY. I have a table of the statements here.

Mr. NEWLANDS. Will you be kind enough to let me have that?

Mr. MCCLEARY. This is not the report of the Director of the Mint.

Mr. NEWLANDS. I will state to you that the report of the Director of the Mint states that the uncovered paper money of the United States is $416,000,000, of the United Kingdom $113,000,000, of France $32,000,000, of Germany $60,000,000, of Italy $191,000,000, of Greece $22,000,000, of Spain $83,000,000, of Portugal $55,000,000, and of Russia $539,000,000. Now, I wish to ask you whether in the case of Russia, Italy, Spain, Portugal, or Austria, whose uncovered paper money is put at $200,000,000, if that uncovered paper money is kept at a par with gold?

Mr. ECKELS. No; I take it, it is not.

Mr. NEWLANDS. Is there a heavy discount in all of them?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Now, this statement also shows that the South American States have $550,000,000 of uncovered paper money. Is any of that kept at a par with gold?

Mr. ECKELS. I do not know what the conditions are in Chile now, nor in Brazil, but undoubtedly in all of those countries there is possibly a falling off.

Mr. NEWLANDS. Is there any debtor country which keeps its uncovered paper money at a par with gold?

Mr. ECKELS. No; I think not, except the United States.

Mr. NEWLANDS. Can you point out to me a single debtor nation in the world, that is to say, a debtor in its relation to other nations as people bear to other people the relation of debtors, where uncovered paper money exists, where they have been able to keep that paper money at a par with gold?

Mr. ECKELS. Not where the government has issued it, but they have where the banks have issued it.

Mr. NEWLANDS. In what countries?

Mr. ECKELS. In the United States, until the war, banks properly conducted, such as the bank of which Mr. McCulloch, of Indiana, was president, and other banks always maintained redemption in gold. The banks in the Suffolk system did the same thing.

Mr. NEWLANDS. I am limiting my inquiry to the present time. Can you point out a single debtor country——

DEBTOR NATIONS.

The CHAIRMAN. I want to ask Mr. Eckels whether as a matter of fact there is any such thing as a debtor nation? There is no debtor nation or creditor nation.

Mr. ECKELS. I suppose where you speak of a debtor nation you speak of the financial condition of the aggregate of individuals.

Mr. NEWLANDS. I have limited my inquiry to the present condition. Can you point out to me a single debtor country to-day which has uncovered paper money issued either by banking power or government power that keeps that money at a par with gold except the United States?

Mr. ECKELS. No, but there is not a nation at the present day that has a banking system which makes so much of bank deposits as is made in this country and has as good and stable banks, but is able to maintain a parity between gold and the paper issued by such banks.

Mr. NEWLANDS. You maintain that such countries could maintain it, but you do not insist that in any country you know of it does maintain it?

Mr. ECKELS. The United States.

Mr. NEWLANDS. I excepted the United States. Do you know any country besides the United States?

Mr. ECKELS. Except Great Britain.

Mr. NEWLANDS. I am talking about a debtor country.

Mr. ECKELS. I think that is so. All of those countries, Mr. Newlands, are populated with peoples who are not to be compared, and are countries whose resources are not to be compared, with those of this country. Furthermore, and the point is an important one, all of these people are wanting in banking facilities as we have them. You can not make a fair comparison or arrive at a correct conclusion in this thing unless all conditions are of the same character and equally favorable.

Mr. NEWLANDS. Can you point out a single debtor country where bank issues of uncovered paper money are kept at a par with gold, except in the United States?

Mr. ECKELS. No, I do not know that I can. However, if the banks of the United States can so maintain their note issues, it is sufficient for this inquiry. The proposed bank legislation is for the United States alone, and is to be based upon conditions which the experience of this people demonstrate they can perform.

Mr. NEWLANDS. We have maintained the parity of our uncovered paper money with gold thus far?

Mr. ECKELS. Yes.

Mr. NEWLANDS. The strain of that maintenance has only come upon us in the past three or four years?

Mr. ECKELS. Well, of course we have only undertaken to do it since 1879.

Mr. NEWLANDS. But I am saying the strain, the final strain, has been during the past three or four years?

Mr. ECKELS. Up to that time the banks furnished the gold. They thus relieved the Treasury, and no one appreciated the danger who did not look ahead, until the point was reached when the banks shifted the burden to the Government, where, under the system maintained, it belongs. The banks only did this when it became evident that any other course invited danger to their creditors and themselves.

RECENT BOND ISSUES.

Mr. NEWLANDS. During those three years we have issued $264,000,000 of bonds. How much of that $264,000,000 of bonds was necessary to take the place of the deficit in the Treasury, and how much was necessary for gold redemption?

Mr. ECKELS. That you will have to find out from the report of the Secretary of the Treasury. The fact is, that not a single dollar of it

could have been issued if it had not been for the law applicable to the maintenance of the gold reserve required to redeem the Goverment's currency issues.

Mr. NEWLANDS. I understand that, but I am speaking now of the facts.

BONDS SOLD TO MEET CURRENT EXPENSES.

Mr. ECKELS. Undoubtedly, Mr. Newlands, more or less of it was ultimately used to meet the current expenses of the Government, but the Secretary has always, and correctly, maintained that in only one instance would it have been necessary to issue bonds to meet the expenses of the Government. In all the others the bond issues were made absolutely necessary for the purpose of maintaining the parity of the two metals as called for under the act of Congress.

Mr. NEWLANDS. Understand me, I do not make the inquiry for the purpose of criticising——

Mr. ECKELS. I understand that.

Mr. NEWLANDS. —the Treasury Department in the employment of any of this fund to meet a deficit of revenue. I simply want to draw a dividing line and ascertain how much of this issue was necessary to make up a deficit and how much for gold redemption of greenbacks. Can you state that approximately?

Mr. ECKELS. No, I can not.

Mr. SPALDING. About $200,000,000 up to the present time.

The CHAIRMAN. Was there a time in the last three years when there was not a sufficiency of money in the Treasury to have met the demands if it had not been for the desire to maintain the parity?

Mr. ECKELS. I think, except in one instance, that the Secretary stated it was necessary.

Mr. NEWLANDS. Then, in your judgment, the issue of these bonds was quite necessary to maintain the parity of the paper issued in gold.

Mr. ECKELS. Absolutely.

The CHAIRMAN. The hour of 1 o'clock has now arrived and the committee will take a recess until half past 1.

AFTER RECESS.

The committee reassembled at 1.30 p. m.

STRAIN OF MAINTAINING PAPER AT A PARITY.

The CHAIRMAN (to Mr. Eckels). Mr. Newlands said that the strain upon us in maintaining our paper money at par with gold has come upon us within the last three years, and you answered that that was true. I want to ask if the strain has not been upon us from 1879, when we resumed specie payments, and up to the present time, having culminated within the last three years, in the fact that the Treasury has carried in its vaults in the neighborhood of $300,000,000 in order to make the country feel satisfied that gold payment was to be maintained—carried it either in currency or gold, about half in gold.

Mr. ECKELS. Yes, it has. Before Mr. Newlands came in I think I had stated why this condition had only come upon us within the three years. I alleged as a reason, the effect of the Bland-Allison Act, which became more manifest with time. Then as a culmination to it all, came the Sherman silver-purchasing act, whereby there was increased the demand obligations of the Government without any corresponding increase in the gold reserve to be held as a redemption fund against the same, and without giving to the Secretary of the Treasury any

means of increasing such gold holdings. The result of these things was that the general public here, as well as those people abroad dealing with us, gained the impression that with the amount of silver and demand obligations which we had, and the law as it was, the Secretary of the Treasury could not, with the amount of gold at his disposal, maintain current redemption in that metal, and therefore could not carry out the provision of the statute relative to keeping the parity of the two metals. This was the reason why the banks ceased to furnish the amount of gold necessary to settle international balances, the consequent effect of which was that the Treasury was called upon to make these current redemptions, a thing which up to 1890 it had only infrequently been asked to do, and then only in small amounts.

The CHAIRMAN. Up to 1890 the banks had furnished the gold both for paying the duties—very largely, 80 odd per cent of them—and for foreign gold export, by the Government's being a member of the New York clearing-house and paying the gold into the clearing-house; so it went into the Treasury and out again without depleting the Treasury.

Mr. ECKELS. That is one reason.

The CHAIRMAN. Now, furthermore, isn't it a fact that the taxation of the people was increased in the equivalent of what the money was worth to them that they had to pay in taxation, namely, 6 per cent on this whole $300,000,000 through that whole period, and that if the Government has to maintain gold payment we have to maintain it at the same expense we maintained it for the ten years, by $17,000,000 a year in increased taxation?

Mr. ECKELS. The fact was that up to that time the banks furnished all the gold necessary for domestic and foreign purposes without any apparent strain upon them.

Mr. NEWLANDS. Mr. Eckels, in your opinion, did the shifting of the balance of trade between this country and foreign countries in 1893 and the consequent demand for gold, in order to settle balances, have anything to do with increasing the strain of the gold redemption in this country?

Mr. ECKELS. Only to the extent that it made gold a little harder for the Treasury and for the people to get. I intended recurring to the last thing you asked me. You spoke about debtor nations having been unable to carry on the current redemption of their paper issues in gold or to maintain the parity thereof with gold. Why do you draw the distinction in this matter between the debtor nation and the creditor nation?

THE SILVER QUESTION.

Mr. NEWLANDS. You have started the silver question now, and I don't want to go into that.

Mr. ECKELS. I think you can state it briefly.

Mr. NEWLANDS. I will say I think a debtor nation is more likely to be called upon for international money than a creditor nation is, and that the strain of the redemption in gold will be greater upon a debtor nation than a creditor nation; hence I assert that the reason why the creditor nations have been able to keep their uncovered paper at par with gold is that they have the advantage of being creditor nations and that the reason why debtor nations have been unable to do so is that they have the disadvantage of being debtor nations, and that consequently the demand for the redemption in gold is greater; and I also assume the theory of the bimetallists, that there is not enough gold in the world for gold redemption.

Mr. ECKELS. To what extent do you give consideration to the individual management of the banks and character of the banking institutions—for instance, in this country or the banking institutions of Russia, or the countries to which you have alluded?

Mr. NEWLANDS. I should make the proper allowance for that. The tendency of my investigation is to show that this idea of almost unlimited paper issues means an experiment which has not as yet been successfully tried by any debtor nation, that is all.

UNCOVERED PAPER MONEY OF THE WORLD.

I observe by the Mint Director's report that the total amount of uncovered paper money in the world is $2,469,000,000, and of that amount a little over $200,000,000 is issued by creditor nations, so called, leaving about $2,200,000,000 issued by debtor countries; and I believe we have your statement that, so far as your knowledge goes, the United States is the only one of these debtor countries that has been able to keep its uncovered paper at par with gold.

WORLD'S STOCK OF SILVER AND GOLD.

The Director of the Mint also states that the total bulk of silver in the world—the total silver stock—is about $4,000,000,000, and that the total stock of gold in the world is about $4,000,000,000, and that the total stock of paper money is $2,400,000,000, making in all about $10,400,000,000.

Now, I believe the assumption of the gold standard men is that gold has not appreciated; that it is maintained at a fixed value. If that be true, this stock of silver, whose face value is $4,000,000,000, has depreciated to about $2,000,000,000, and we have a total stock of uncovered paper money in the world of about $250,000,000,000, of which only about one-fifth is kept at par with gold, the rest being at a very large discount, approximating $1,000,000,000; so that there is a total depreciation in its face value of the world's stock of money of at least $3,000,000,000 out of $10,250,000,000. Now, do you think that this dislocation of the par between gold and silver and paper in the world's currency has a bad effect upon trade and upon business?

Mr. ECKELS. It undoubtedly has some effect, but I think the error of the assumption of the silver people lies in this: You base——

Mr. NEWLANDS. Pardon me, I did not intend to go into a silver argument. I simply wish to inquire whether in your opinion this depreciation of $2,000,000,000 in silver and $1,000,000,000 paper has had any disastrous effect upon the trade of the world?

Mr. ECKELS. Undoubtedly it has affected the trade of the world somewhat but I think it has not been what you term disastrous, at all.

MAINTAINING THE PAR OF EXCHANGE.

Mr. NEWLANDS. Yes. Then we have in this country gold, silver, and paper. The effort of this country has been to maintain the par of exchange between those three classes of money. Do you think that it is desirable that the par of exchange should be maintained?

Mr. ECKELS. Yes; I think every country ought to maintain all the money which circulates in that country at par.

Mr. NEWLANDS. With gold?

Mr. ECKELS. Yes. But I do not think it ought to get itself into a position where it must be at a continual expense to maintain one

form of money at a parity with the other and that it ought to lop off those moneys which can not support themselves.

Mr. NEWLANDS. Your idea, then, is that it is desirable that we should maintain the par of exchange in this country between our various forms of money, and if that proves expensive then we should lop off depreciated forms of money?

Mr. ECKELS. Yes.

Mr. NEWLANDS. That would mean getting rid of silver in this country as a primary money, and it would also, in your judgment. mean getting rid of paper money, unless its par could be maintained with the gold.

Mr. ECKELS. Yes, it has always been redeemed, on demand, in gold.

Mr. NEWLANDS. Suppose you could not maintain that parity in this country; in your judgment, would it be disastrous to the business of the country?

Mr. ECKELS. Undoubtedly it would.

Mr. NEWLANDS. If that be true isn't it just as important to maintain the par of exchange in international moneys—the moneys of the world?

GOLD THE RECOGNIZED STANDARD.

Mr. ECKELS. Yes, it is important to have it maintained at a par in the countries with which we are dealing, and in all these countries with which we are dealing the recognized standard is the gold standard.

Mr. NEWLANDS. But taking the world-wide view, is it your opinion that it is important to maintain the par of exchange between the different kinds of money throughout the world?

Mr. ECKELS. I think it would be a very good thing if it could be done.

Mr. NEWLANDS. Now, if it could not be done; we will assume that we have the standard, with a par of exchange, twenty years ago, and we will assume that in the process of years, as has been the case, the silver has depreciated as compared with gold, and the uncovered paper money of the world has depreciated as compared with gold, and assuming that caused, as you think it would cause, a dislocation of the business of the world and disaster; upon whom would the disaster fall, upon the countries that had the depreciated currency or upon the countries which according to your judgment had the stable currency—gold?

Mr. ECKELS. Well, I would think it would affect both.

Mr. NEWLANDS. You think it would affect both?

Mr. ECKELS. Yes.

Mr. NEWLANDS. What particular disadvantage would it create as to the countries that had the depreciated currency?

Mr. ECKELS. To change the standard?

Mr. NEWLANDS. Yes.

Mr. ECKELS. For instance, in this country I think that the loss occurring by the change necessarily made in contracts would be far greater to our own people from simply their domestic exchanges than it would with those who are dealing with us abroad.

Mr. NEWLANDS. What effect would it have upon production and upon labor, in your judgment?

LABOR WOULD SUFFER MOST OF ALL.

Mr. ECKELS. I think that labor would suffer quite the most of all.

Mr. NEWLANDS. Your idea is that labor would be cheapened, although nominally paid in the same face value; that the money would have less purchasing power?

Mr. ECKELS. I think this: The only capital which the laborer has is his ability to work, which capital he sells for money. For his own good he ought to sell it for that money which buys for him the largest number of things. It therefore follows that if you lessen the value of that money you lessen the number of things which he can purchase with his capital, which is labor.

Mr. NEWLANDS. In other words, you cheapen his labor?

Mr. ECKELS. Yes; you cheapen his labor without increasing the price of it. On the other hand, you increase the price of the things which he has to purchase. The laborer occupies a very different position in the thing which he has to sell from the man who has merchandise to sell. Consequently anything which tends to raise the price of that which he has to purchase without increasing the receipts from that which he has to sell injuriously affects him.

Mr. NEWLANDS. I understand then, that in your judgment that would apply to all these countries which have a depreciated money—either silver or paper.

Mr. ECKELS. I think in the end that they would be very much more largely the sufferers than the people who maintained the gold standard.

Mr. NEWLANDS. It has the tendency in these countries to really cheapen their labor, hasn't it?

Mr. ECKELS. Yes, because it does not give them an increased price for their labor, and it does increase the prices of the things which they have to buy.

Mr. NEWLANDS. Very well, then. Take these countries which have either silver or depreciated paper, and whose labor is cheapened, according to your statement, by that fact.

Mr ECKELS. There are other elements, of course, that contribute——

Mr. NEWLANDS. Does it then enable them to produce both agricultural products and manufactured products at a less labor cost, all other things being equal?

Mr. ECKELS. Apparently, in the aggregate they do, but the way to estimate properly a labor cost is, not to say that this man who is working on this thing receives so much a day, but it is to take how much he receives a day and then estimate the labor cost by dividing the daily wage by the number of things he manufactures or makes a day. In this manner you are able to ascertain correctly the individual cost of the individual article. It is wholly inaccurate to compare simply the total dollars received and not take into account the results obtained from the expenditure of those dollars in every country between which comparisons are being made.

Mr. NEWLANDS. You mean efficient labor has a great deal to do with it?

Mr. ECKELS. Yes; very much.

Mr. NEWLANDS. But I covered all that by saying "all other things being equal"—appliances for manufacturing, the machinery, everything that human intelligence can produce to aid human labor. I ask you, if the labor unit cost less per day by reason of the depreciated money, whether the products of that country do not have a certain advantage in the markets of the world over the products of the country that has the currency that is stable, according to your judgment—gold.

Mr. ECKELS. Undoubtedly any country which has the lowest wages possible but has all the advantages in the way of advancement, in machinery, skill, education, etc., has the advantage over another country which though having the same advantages still pays higher wages, but you must entirely change the condition of the people of these countries, their habits of work, their habits of thought, and their habits of

living. It is impossible to make out of these people the same thing that you can make out of the Anglo-Saxon people.

Mr. NEWLANDS. Then you think the superiority is in race and not in money standard?

Mr. ECKELS. I think that is a very large contributing element. The superiority of race manifests itself in having in countries akin to us the best things in daily convenience, the best things in manufacture of which the world knows, and the reason we maintain here the highest standard of monetary value is because it best answers the purpose of the highest civilization as expressed in its commercial necessities.

THE SILVER QUESTION.

The CHAIRMAN. There are certain things in reference to the financial question that properly come before this committee; there are certain things in relation to coinage that properly come before the Committee on Coinage, Weights, and Measures. This committee is willing to hear views with reference to the bills in question that are now before this committee, but I do not think it is willing to go into a discussion of the silver question. I do not think this is the proper committee for that discussion.

Mr. NEWLANDS. I do not intend to go into the silver question at all. I am addressing myself to the importance of maintaining the par of exchange. We have Mr. Eckels's view that we ought to maintain the par of exchange between silver, paper, and gold in this country.

If the countries that have a depreciated currency have a cheaper labor as the result of it, all other things being equal, will not the products of their labor, in the world's markets, assuming that they are of equal quality, pull down the value of the product of the gold-standard countries to their level in the markets of the world?

WRONG PREMISES.

Mr. ECKELS. Yes; but the great difficulty, Mr. Newlands, with your question is that you make an assumption of something as a fact which is not a fact.

Mr. NEWLANDS. I quite agree with the gentleman as to the absolute importance of maintaining the par of exchange between our various moneys in this country. I also insist that as this country is a part of the general world and as its prosperity depends largely upon the question of exports and imports, that it is of the highest importance that the par of exchange be maintained in the world's money.

Mr. ECKELS. It is so maintained, is it not?

Mr. NEWLANDS. No; because since 1873 the par of exchange has been absolutely lost between silver and gold and the result has been that the silver countries have been able to produce cheaper. Consequently their agricultural production has been stimulated at our expense and their manufacturing production is about to be stimulated at our expense; and hence I say that all legislation should be addressed to the question of restoring the par of exchange in the world's money.

The CHAIRMAN. I think this committee has no jurisdiction over that question. Now, I ask the committee whether they want to go further with this investigation of silver or not.

Mr. NEWLANDS. I have about come to the end of that.

Mr. ECKELS. I do not think you can assume any one thing as the cause of these conditions of various countries being different now from

what they were. You can not say, for instance, that because Argentina happens to be a silver country that therefore large amounts of wheat have been produced in Argentina to compete with our wheat in Dakota. There is no one single element which produces these conditions, but a great many.

Mr. NEWLANDS. I agree with you—a great many.

FUNCTION OF METALLIC MONEY.

Mr. ECKELS. And I think that the refinements of banking exchanges which have gone on through a process of evolution from first to the last have necessarily limited the use of metallic money, and that metallic money is now only in demand for the purpose of reserves in banks and for the purpose of settling international balances. What is said upon the subject of ultimate redemption of the demand obligations of the nations of the world, or the time obligations so far as it extends to the assumption that there is not enough gold in the world for that purpose, is based upon the very erroneous idea that all these obligations are to be redeemed at one and the same time. There is no one who wishes redemption of the obligations which he holds for any other purpose than to obtain something else, except a miser who desires to hoard his money.

The CHAIRMAN. Something else that can not be obtained by any other thing.

GOLD SUPPLY AMPLE.

Mr. ECKELS. But the amount of gold needed for the current obligations of any people is to be estimated in the same way that the amount of reserve to be held against the deposits of a bank is estimated. Nobody expects the depositors of a banking company to come in and demand all their deposits at the same date. Bankers can estimate from time to time their needed reserves just as a man estimates who is conducting a grocery, or any other business, how much he will need to meet the current wants of his customers. To my mind it is just as erroneous to say on the grounds stated that there is not enough gold in the world to meet the outstanding obligations of the people as to say that everybody will want the same article of food on the same day and the supply is inadequate. For instance, the national banks in this country showed at their last call that they had nearly $2,000,000,000 in individual and other deposits and only had in bank $381,000,000 of lawful money reserve.

Now, that $381,000,000 is more than sufficient to meet any demand that might be made upon the part of depositors, as estimated by the action of depositors at previous times, and upon the same principle if to-day there is in this country or elsewhere the percentage of gold necessary for current redemption, the amount to be ascertained in the same way that bank reserves necessarily are ascertained, there would be sufficient amount to meet all demands. If there should be a sudden demand for a larger amount the bank has facility for getting that amount from the places where there is a surplus, because the banks have the kinds of assets which are convertible and which are desired by the people who have a loanable capital, and they have the machinery for the immediate conversion of them. It is just as it was when the Baring failure occurred. It was not difficult for the Bank of England to get from the Bank of France, which had a large surplus, all the necessary gold it desired.

The CHAIRMAN. Mr. Fowler has to go. Please let him ask one question, which he very much desires to ask.

BANK OF FRANCE.

Mr. FOWLER. I want to explain away another assumption that has been made by Mr. Newlands. The assumption is this: The argument has been repeated here that the Imperial Bank of Germany and the Bank of France issued their notes under cover. As a matter of fact, there is not one single dollar set aside by the Imperial Bank of Germany for the security of a single note, and although the issue power of the Bank of France is 4,000,000,000 francs, or $800,000,000 of our money, and its outstanding notes are $735,843,041, there is absolutely not one dollar security specifically set aside to cover a single one of those notes; that is, the issue of all notes amounts to $735,843,041. The deposits of the people of France, public and private, with the Bank of France amount to only $126,597,795; so that the Bank of France maintains its redemption purely upon a note issue for which there is absolutely not the cover of a single dollar.

And in addition to that, the banks of Scotland, the banks of Ireland, and the joint stock banks and private banks in England, excluding the Bank of England, have a credit currency of $70,000,000, for not one dollar of which is there a single dollar set aside for specific cover.

Mr. NEWLANDS. Are you on the witness stand now?

Mr. FOWLER. I am, sir.

Mr. NEWLANDS. Permit me to ask you one question. The report of the Director of the Mint for 1895, page 40, gives a statement of the uncovered paper money in France and Germany, and it states that the uncovered paper money of France is $32,000,000, and the uncovered paper money of Germany is $65,000,000. Do you claim that that is incorrect?

Mr. FOWLER. I say that statement was technically correct at the time it was made, because the bank itself simply had that in its treasury, but there was not one single dollar set aside to secure the note issue. It might be the next day they would not have half as much metallic money to secure that as the day the Director of the Mint made that statement?

Mr. NEWLANDS. You mean that they did not require it to be covered?

Mr. FOWLER. That is it, exactly.

Mr. NEWLANDS. But do you take issue with the statement made by the Director of the Mint that on the day that that report was made France had out only $32,000,000 and Germany only $60,000,000?

Mr. FOWLER. I know nothing about the correctness of his statement that day. The Bank of France might not have had upon the same day a single dollar of metal there, excepting of its own volition.

Mr. NEWLANDS. Assuming that the bank has the power to issue this vast amount of uncovered paper money, it only verifies the proposition that no safe bank in God's world would ever issue it. If you rely on the banks of this country to furnish the country with paper money your hope of getting sufficient volume of such money will not be realized, because no safe bank will issue——

Mr. FOWLER. Then the Bank of France is not a safe bank, and its issue of $710,000,000 in paper money is not safe.

Mr. NEWLANDS. Now, to come back to the United States and the question as to whether—as I understand it—bank currency should be substituted for Government currency. I wish to ask, in your judgment, what amount of uncovered paper money is there in this country to-day?

PAPER MONEY OF THE UNITED STATES.

Mr. ECKELS. There are $235,000,000 in national-bank notes. There are $346,000,000, technically, of legal-tender notes. There are about $125,000,000, I think, of the Sherman notes. In addition to these are the Bland silver dollars and the other silver dollars that we have coined, which, correctly speaking, are credit currency, because they depend upon something besides themselves.

Mr. JOHNSON. Do you consider them credit currency to their face value?

Mr. ECKELS. I suppose that the silver dollars would be credit currency only to the extent of the difference between one hundred cents and their bullion value. There would be $565,000,000, about, in silver.

Mr. NEWLANDS. Do you regard all that as credit currency, save so far as the bullion value of the silver may be there for its redemption?

Mr. ECKELS. Yes; as stated.

Mr. NEWLANDS. If that bullion was paid out in redemption to its market value and put in the markets of the world, would it maintain that value?

Mr. ECKELS. Its bullion value?

Mr. NEWLANDS. Yes; its present bullion value.

Mr. ECKELS. No; I suppose not. If a great quantity of it were thrown on the market it would go down, just as the price depreciated when the Sherman silver law made a market for all the silver in the country.

Mr. NEWLANDS. Then do you or do you not regard all this money—silver certificates, silver, Treasury notes, greenbacks and national bank notes—as redeemable in gold?

Mr. ECKELS. I do. I think under the act of 1890, which says it is the declared policy of the Government to maintain the parity of the metals, that that law is nullified unless every dollar is exchangeable with every other dollar without loss to anyone.

Mr. NEWLANDS. And apart from that law would you regard it as wise policy to maintain that—all this credit money—redeemable in gold?

Mr. ECKELS. I would. I regard it as an unfortunate circumstance that we have this, but having gone into it, there is no way that the Government creditably, no matter what the cost, can get out of it except by maintaining the parity of the metals.

Mr. NEWLANDS. How much gold is there in this country?

GOLD STOCK OF THE UNITED STATES.

Mr. ECKELS. I think there is over $700,000,000. The estimate of the Director of the Mint is not at all high, and my information comes from an investigation made in June last of the amount of gold held by the individual banks, national, State, savings, and private ones. In their returns the kinds of cash which they held were separated. There was at that time, as I remember it, about $420,000,000 in gold in the banks.

Mr. NEWLANDS. Exclusive of the Treasury?

Mr. ECKELS. Exclusive of the Treasury. Then there was the gold in the Treasury, and an estimate was made of the amount of gold hoarded, which at that time was a very large amount. I know of one incident where in one bank, after the election, one man took from its safe deposit vault $240,000 in gold coin and put it into the bank proper, and I know of a number of instances where $40,000 and $50,000 in gold coin were taken out of deposit boxes in this way. Of course there is

a large amount of gold coin in circulation in the Pacific States. In all the silver-producing States there is held by the banks about $15 of gold to $1 in silver.

Mr. NEWLANDS. What do you estimate the total amount of gold in circulation in the Pacific Coast States is to-day?

Mr. ECKELS. I can not tell that specifically.

Mr. NEWLANDS. That is not important if it takes any time.

Mr. ECKELS. It is in my report. I will be very glad to give you a copy of it.

Mr. NEWLANDS. The Mint Director, in his report for 1895, says that the gold stock of this country is $618,000,000. Do you regard that as an underestimate?

Mr. ECKELS. I do.

Mr. NEWLANDS. You think there is $700,000,000 of gold?

Mr. ECKELS. Yes; especially now, in view of the large imports which have occurred during the last few months.

Mr. NEWLANDS. Assuming that we have $618,000,000 of gold and we have credit money to the extent of $1,000,000,000 represented by these various forms of money, do you think it desirable that the number of units in this country should be diminished; do you think we can get along with less than $1,600,000,000?

Mr. ECKELS. I think to-day there is a redundancy of currency.

AMOUNT OF DEPOSITS IN THE BANKS.

Mr. NEWLANDS. Now, you stated that the deposits in the national banks alone were $2,000,000,000. What is your estimate of the total deposits in all the banks of the country?

Mr. ECKELS. $5,000,000,000 is a rough estimate. I can tell what they were in the last report.

Mr. NEWLANDS. This is in the last report, October 31; the deposits of the State banks were $695,659,914; loan and trust companies, $586,468,156; savings banks, $1,935,466,468, and in private banks $59,116,378.

Mr. ECKELS. Well, the aggregate of that is about $5,000,000,000, in deposits, isn't it?

Mr. NEWLANDS. Yes, I think so. It is not important as to the exact amount. It is between $4,000,000,000 and $5,000,000,000, not exceeding $5,000,000,000 and not probably less than $4,000,000,000.

Mr. ECKELS. I think it is certainly $5,000,000,000.

Mr. NEWLANDS. You think it is certainly $5,000,000,000?

Mr. ECKELS. Yes.

RESERVE HELD AGAINST DEPOSITS.

Mr. NEWLANDS. Now, assuming that we have 1,600,000,000 monetary units in the shape of dollars in this country and $600,000,000 or $700,000,000 of this is gold and the other is bank paper, redeemable in gold, I ask you whether you think that the banks of the country ought to have any considerable amount of gold as reserve against this deposit of $5,000,000,000.

Mr. ECKELS. Undoubtedly; they have to carry a reserve.

Mr. NEWLANDS. Would you think they ought to keep it in gold; would you have them keep their reserves in gold?

Mr. ECKELS. Yes; I would have them keep it in gold.

The CHAIRMAN. You are talking about their cash reserve?

Mr. ECKELS. Oh, yes.

Mr. NEWLANDS. About how much do you think they ought to keep?

Mr. ECKELS. It has been found that the necessary amount of reserve to be held against deposits in what are termed reserve cities is 25 per cent of the individual deposits and 15 per cent in places not reserve cities.

Mr. NEWLANDS. What would you say is the average amount required?

Mr. ECKELS. The average amount would be between—you can not well draw an average.

Mr. NEWLANDS. Would you say 16, 18, or 20 per cent?

Mr. ECKELS. Eighteen per cent. They do hold a larger reserve than that, as a general thing.

Mr. NEWLANDS. We have here the statement that there are $5,000,000,000 of deposits in this country. Now, the question is, how much gold should these banks hold against these deposits as reserves.

The CHAIRMAN. He has answered that.

Mr. NEWLANDS. Very well, I am going on. He has just answered that question. Now, you say about an average of 18 per cent in gold would be sufficient?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Now, 18 per cent of $5,000,000,000 would be $900,000,000 of gold as reserve for the deposits.

A SAFE RESERVE.

Mr. ECKELS. The national banks hold an average of about 18 per cent.

Mr. NEWLANDS. And that, you say, is safe?

Mr. ECKELS. Yes, I think that is a safe reserve.

Mr. NEWLANDS. Requiring $900,000,000 in gold?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Now, we have also out, say, $1,000,000,000 paper money. What would you regard as a safe gold reserve to hold against that?

Mr. ECKELS. The national-bank currency is taken care of very satisfactorily by a 5 per cent redemption fund. You can not, Mr. Newlands, estimate that the same amount of money as a redemption money is necessary for the current redemption of your notes as for deposits, because people do not care to carry metallic money, and they do not carry it, and they will not carry it. They only want to know that when they go to the bank of issue they can have their notes redeemed.

Mr. NEWLANDS. Then you have 5 per cent more needed as a reserve for the notes. That 5 per cent on $1,000,000,000 is $50,000,000. The total gold reserve of the country, then, would be $950,000,000.

Mr. ECKELS. Undoubtedly that would be so upon the estimate made But it must be remembered that when the point is reached where it is all bank credit currency, the legal-tender obligations have been exchanged, and the Sherman notes have been converted into gold, and the additional necessary gold, if any is needed, will have been imported into the country. So the gold in the country has been increased.

Mr. NEWLANDS. Will you tell me, Mr. Eckels, where you are to get this extra amount of gold from?

Mr. ECKELS. Get it wherever there is a surplus—and there is always a surplus somewhere—just as England got gold from France, the necessary surplus, to carry on the Bank of England when confronted by the Baring difficulty.

Mr. NEWLANDS. Now, then, let me call your attention to the Mint Director's report. His report shows that in England, France, and Germany alone one-half of the gold in the world is at the present time located, $2,000,000,000, and that the other half of the gold is scattered around the rest of the world—part of it is in Russia, part of it in Austria, part of it in this country, and a little of it in other countries. Assuming that $2,000,000,000 of gold are required for the business of England, France, and Germany, do you think the other $2,000,000,000 is enough for all the rest of the world?

Mr. ECKELS. That is an assumption. Let me ask you a practical question. Have you ever known a time, Mr. Newlands, when we wanted gold in this country that we could not get it if we were willing to pay for it?

Mr. NEWLANDS. That involves a long answer, and I do not want to take up the time of the committee.

GOLD CAN ALWAYS BE OBTAINED.

Mr. ECKELS. I will answer that question in this way; that it does not make any difference whether that $2,000,000,000 is in England, Germany, France, China, or anywhere else; if we want it we can get it if we are willing to pay for it. We may at times have to pay more for it than at other times, but there never has been a time, even during the period of the war, that gold could not be obtained if we paid the rate charged for it. I think that there will always be a sufficient amount of gold here when it is needed, and when it is not needed it will be elsewhere. It moves about. One day it will be in England, another day it will be in Germany, another day it will be in France, and another day it will be here, but always filling up the vacuum which ought to be filled, and if that vacuum exists in the United States, and the reason for its filling exists, the experience of the past proves it will be filled.

The amount also will vary. Your estimate of $950,000,000 may be just enough to-day, entirely too much to-morrow, and wholly insufficient the next day. It is always dependent upon changes in trade, conditions of credit, and other circumstances of a like character.

Mr. NEWLANDS. Suppose we should go to that kind of a banking system to-day, and require $950,000,000 in gold. Having only $700,000,000 we would require $250,000,000 more. Now, looking all over the world, from what country would you get it?

Mr. ECKELS. We could get it from England, from France, from Germany, just as the banks got it six months ago when they undertook to maintain the gold reserve in the Treasury, and as they have done before and, as I said earlier, the Chicago banks did in the panic of 1893. They sent over and obtained it abroad.

Mr. NEWLANDS. I presume they could get it if they bid high enough for it.

Mr. ECKELS. Yes; it would always come where it was needed by paying the price it commanded.

Mr. NEWLANDS. In other words, while we would have to increase our reserves from $700,000,000 to $950,000,000, your assumption is that gold always could be gotten somewhere by bidding enough for it, and that, on the other hand, those countries from which we get this gold could get it, in their turn, by bidding enough for it when they needed it.

The CHAIRMAN. Is he correct in his assumption that we need $900,000,000 in gold.

Mr. ECKELS. I have not made the estimate; that is the estimate of

Mr. Newlands. It really makes little if any difference, however, what the amount is. The fact remains that when it is needed here we could get it, and if it is not needed here then it goes where it is needed, because capital only remains in the place where it is needed and it leaves when it is not needed.

Mr. NEWLANDS. England, France, and Germany are the greatest creditor nations of the world, are they not?

Mr. ECKELS. I believe so.

Mr. NEWLANDS. They have vast deposits also in their banks, haven't they?

Mr. ECKELS. Yes.

Mr. NEWLANDS. They are obliged to keep certain reserves?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Now, then, if as a matter of fact you find, running over a period of years, that those three countries have kept on hand about $2,000,000,000 in gold, would you not conclude that was the amount of gold that they regard as proper and necessary as the basis for their deposits and reserve for their note issues?

Mr. ECKELS. I should think that that was their estimate, but at the same time, if they had enough surplus of gold to furnish people elsewhere heretofore who needed it, I should think they could continue to do so.

Mr. NEWLANDS. Have you observed, during the past five or six months, that when we were selling wheat abroad, and the price was advancing because of the famine of wheat in India, there was a movement in England to check the export of gold to this country?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Why did England seek to check that export; was it not because she thought she required the gold she had on hand?

Mr. ECKELS. She thought she had more need for it there than we did here, but she could not do it.

Mr. NEWLANDS. And she raised the discount from 2 or 3 per cent up to 5 per cent.

Mr. ECKELS. But she could not keep the gold from coming over here because there was more demand for it here and they wanted something else we had more than they wanted the gold.

RATE OF DISCOUNT OF BANK OF ENGLAND.

Mr. NEWLANDS. What is the normal rate of discount of the Bank of England?

Mr. ECKELS. I could not tell.

Mr. NEWLANDS. I believe it is about 2 per cent.

Mr. ECKELS. Between 1½ and 2 per cent.

Mr. NEWLANDS. The discount recently has been 4 and 5 per cent?

Mr. ECKELS. Yes.

Mr. NEWLANDS. That rate of discount was raised to check the export of gold from that country to this country?

Mr. ECKELS. Yes.

Mr. NEWLANDS. They needed the gold and they wanted to hold the gold?

Mr. ECKELS. But they needed wheat more than they did gold.

Mr. NEWLANDS. So you say their gold came. It did not come in the same quantities, however, as it would had not the rate of discount been raised?

Mr. ECKELS. That is so.

Mr. NEWLANDS. Then, in order to get that gold, just as soon as

they raised that rate didn't it check the rise in the value of our wheat—didn't we have to offer more wheat for their gold to get it?

Mr. ECKELS. Wheat continued to rise in price.

Mr. NEWLANDS. But would it not have risen more in price if it had not been for that raise of the discount in the rate of the Bank of England?

Mr. ECKELS. No, I do not think so.

Mr. NEWLANDS. Didn't that raise make gold harder for us to get and wheat easier for them to get?

Mr. ECKELS. No, I think it made the wheat harder to get, because they had to pay more for the money to get it with.

Mr. NEWLANDS. And, on the contrary, we wanted gold instead of wheat; that would make us offer more wheat to get gold, would it not?

Mr. ECKELS. Yes, if conditions were reversed, I suppose that is so.

Mr. NEWLANDS. I agree with you, that if England raised the rate of discount to 5 per cent we could only get it by making the use of gold more profitable here.

Mr. ECKELS. And making what we have more desirable there.

Mr. JOHNSON. I respectfully submit, Mr. Chairman, that the time of the Comptroller is valuable to us as well as to himself, and that in this examination of him there ought to be a fair division of time among the members of the committee. I have gotten through with what I had to ask, and I submit that the gentleman from Nevada has exhausted his time and that other gentlemen should now be allowed to ask questions. The time is limited.

Mr. NEWLANDS. The committee has been exceedingly courteous to me, and I am very much obliged for the courtesy. It seems to me that this is a most important question. Everybody admits the candor and the sincerity and ability of the Comptroller. We are here for information and not here as partisans, and it seems to me that we can make no inquiries so pertinent as the sufficiency of the gold stock in this and other countries for the reserves of banks.

The CHAIRMAN. This is not a meeting for general inquiry.

Mr. NEWLANDS. Upon this very question I insist I am confining myself to the question. I would like at some future time to pursue this inquiry, when convenient to the committee, for half an hour or an hour longer, and I trust it will not swell into the four or five days to which the chairman has alluded.

The CHAIRMAN. I have no doubt but that it will swell into four or five days, however.

Mr. NEWLANDS. I have doubt of it. I have doubts whether it assumed the proportions the chairman has mentioned upon the other occasion.

Mr. ECKELS. I will be very glad to come before the committee at some future time to discuss that question. Of course you understand that this is not my field; that is the field which should be occupied by the Secretary of the Treasury, unless it is brought in in connection with that which I think is essential to putting the country in a condition for a proper banking measure. I repeat my former statement, that unless these other things are gotten out of the way a banking bill simply relieves us of a large inconvenience and some loss, but that it can not accomplish a permanent good until we put ourselves on a basis of not having the Government issue credit currency, whether it be in the shape of paper or depreciated silver. If thought best I would at some future time be very glad to continue the discussion of this and kindred questions involved in our financial situation.

BRANCH BANKS.

Mr. Cox. I would like to ask one question of the Comptroller. To get back to the question of branch banks, which we were discussing this morning, if I have got your idea about that, you would try to supply the scarcity of money at certain times by branch banks of large banks—isn't that it?

Mr. Eckels. Yes. The reason, Mr. Cox, that in these communities independent banks can not be established is because they have not the necessary surplus capital for that purpose, and therefore must depend on outside aid.

Mr. Cox. I appreciate fully the remarks you made about that.

Mr. Eckels. But they could import capital from large outside banks through such branches. These branches could be conducted very much more economically than independent banks in those communities, as the investment of money in capital would not be necessary.

Mr. Cox. I appreciate your idea very fully.

Mr. Eckels (continuing). And the general banking machinery would be found to be cheaper, and therefore the money rates would be cheaper.

Mr. Cox. You are working at the same thing I am.

Mr. Johnson. I think the answer is somewhat misleading when taken in connection with an answer the Comptroller made to a question I asked him—that the more inexpensive the notes are to the banks, the more likelihood there will be of these agricultural communities having a plenty of money.

Mr. Eckels. Anything consistent with safety which tends to cheapen the rate of cost to institutions which are issuing money benefits the people who are getting that money, as it means for them lessened rates of interest and more investible capital.

Mr. Johnson. For instance, the lack of profits might deter a bank from being established in a certain community, whereas, if there was a greater profit in circulating notes a bank would be established there.

Mr. Cox. Let me draw your attention to the state of facts that exists. Take the rural districts of my country. Their credit consists in the real estate and property. That is what they have now. If you establish a branch bank from one of the large banks and they require certain bonds and stocks convertible into cash any day upon the market, can that possibly give our folks any relief?

PROVINCE OF COMMERCIAL BANKS.

Mr. Eckels. I think if the branches are established in such places and it is found that the people there are individuals who pay their debts and have bankable assets which can be converted at any time, there will be no difficulty about their borrowing. Right here permit me to say, in this connection, Mr. Cox, that a commercial bank can not take commercial deposits and invest those commercial deposits in fixed loans and investments without ultimately breaking the bank. The province of savings banks and trust companies is fixed investments, while the province of commercial banks is the conduct of daily commercial business.

Mr. Cox. I appreciate that very much; but all through that country is a system of State banks without issue. They take their mortgages and make their loans, and most of them are made on the question of security, without any collateral whatever. It is personal security.

Now, when you establish your branch bank, would it not be better, under all the circumstances of the case, to leave those communities alone, under the State regulations, to control their own matter?

Mr. ECKELS. Of course if a community would not support a branch bank the bank would not stay there.

STATE BANKS.

Mr. COX. My question is this: Each community judging of its own wants and necessities, would it not be better to leave those communities under the State regulations to establish their own institutions?

Mr. ECKELS. I think, so far as I know, that nobody undertakes to interfere with State regulations of State banks or anything of that kind, except in the matter of note issue. The regulation of note issues is based upon the ground that at present, at least, the Government is primarily, or ultimately, responsible for the redemption of the notes. The demands of trade and commerce are such that there would be a serious inconvenience, even though no loss might arise, if the banks of each State issued their own different character of moneys.

Mr. COX. Your idea and mine is the same on one proposition—that this issue ought not to be based on bonds.

Mr. ECKELS. I think I said that I thought the correct banking principle was to issue bank notes against bankable assets. In this matter, however, you are obliged to deal with this practical fact, that the average business man in this country has never known anything but a currency based on securities. A new currency system must at the outset be completely enthroned in the confidence of the people. Because of this you can not undertake to substitute in its entirety a wholly unsecured currency at the start for a currency that is secured, but ultimately I think the point could be reached through gradual processes, just as any other thing is done, by which the largest portion of the banking currency could be issued against credit and be as readily accepted by the people. It would of course require a high order of banking and a high grade of assets.

Mr. COX. I appreciate that very much, but let me draw your mind to this proposition: Suppose a bank is organized in my State under State authorities with the right to issue its notes under proper restrictions—we will assume proper restrictions are established—do you think it possible that any State could put its notes out over its counter unless as well secured as any other circulation out to-day?

Mr. ECKELS. I think, Mr. Cox, there is a great deal of unnecessary fear about State bank note issues, but the fact that it does exist is the fact you have to reckon with. I have no doubt that just as the good State banks in New York, Louisiana, Indiana, Ohio, and Illinois and elsewhere maintained the payment in gold of their notes when permitted to issue them, they now would do the same thing, and I have no doubt the State would throw about them every possible safeguard as far as regulation and safety are concerned. But here is a country of vast extent, embracing many different States that with the different systems established would tend to create a constant inconvenience without giving in return any adequate resulting benefits.

Mr. COX. Assume that your idea is correct. Inconvenience would exist and want of confidence in that circulating medium. Now, then, whom does that hurt?

Mr. ECKELS. Why, it would hurt your own people most of all, because it would withdraw from them the credit extended to them by

those people who have capital they wish to invest and who are doing business with them in the knowledge that the return received will be exactly in kind and character of the thing loaned.

Mr. COX. Is it a part of this Government to take care of the credit of my people?

Mr. ECKELS. It is in a general way, in not permitting it to be unnecessarily injured.

The CHAIRMAN. In estimating the amount of redemption money needed in any banking system in any country can the estimate be made with reasonable accuracy on any other facts than the actual doing of the thing proposed by the banks?

Mr. ECKELS. They would arrive at it the same way as actuaries in insurance companies arrive at the question as to how much they should charge on policies.

CREDIT CURRENCY.

Mr. SPALDING. I have listened with a great deal of interest to you, and I should judge—I want to see whether I am right—that at the present time you would not recommend an issue, or a banking bill that would allow the issue, of notes on a credit basis entirely on the assets of the bank?

Mr. ECKELS. Not wholly; no.

Mr. SPALDING. You have stated the reasons. I wanted to see whether I had the idea.

The CHAIRMAN. Just as safe as guarantees of bonds?

Mr. ECKELS. I think it amounts to the same thing.

Mr. SPALDING. For instance, the assets of the bank are how held for the depositor, and if there was an issue of credit currency it would take away the assurance of the depositor.

Mr. ECKELS. The only difficulty would be in having the minds of the depositor and the note holder always kept right. It must be remembered that there have been 5,060 national banks established, and there have been but 330 bank failures. Nobody has lost anything through a bank note.

Mr. SPALDING. Because they are guaranteed.

Mr. ECKELS. But national banks have not failed because of their having bond securities preventing loss to note holders, but because they have been well conducted; and I imagine if these banks had issued against assets with the same good management there would not have been any more failures. The only difference would have arisen from the public having felt the same assurance of safety in the notes of the banks. A change in the matter, of course, requires the reeducation of the public.

REDEMPTION AGENCIES.

Mr. HILL. Some years ago the national banks made the redemptions themselves. Was it a success or a failure?

Mr. ECKELS. I take it, from the changing of the law, that it did not operate well.

Mr. HILL. Do you think it could be made successful at the present time?

Mr. ECKELS. I would not be surprised if under proper circumstances there might be redemption agencies, but they would make redemption more expensive than it is now.

Mr. HILL. In that respect it would be disadvantageous. It would require a larger reserve fund, would it not?

Mr. ECKELS. Probably.

Mr. SPALDING. Most of the bills, except Mr. Brosius's bill, recommend the issuing of notes on the assets of the bank, and that is the reason why I ask the question—because we are discussing these particular bills.

Mr. ECKELS. I regret that I am now compelled to go, but I will appear before the committee at another time.

The committee thereupon adjourned.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., Monday, February 1, 1897.

The committee met at 10.30 a. m. Members present: The Chairman (Mr. Walker) and Messrs. Brosius, Johnson, Van Voorhis, McCleary, Fowler, Lefever, Spalding, Calderhead, Hill, Cox, Stallings, Black, Newlands, and Hendrick.

Hon. James H. Eckels, Comptroller of the Currency, appeared before the committee and resumed his statement begun on January 28, 1897.

STATEMENT OF HON. JAMES H. ECKELS, COMPTROLLER OF THE CURRENCY—Continued.

Mr. COX. Mr. Comptroller, to get at the cardinal principles you have in your mind for banking, as I understood at the commencement of your statement, the first is to keep the Government loose entirely from the redemption of the notes?

Mr. ECKELS. Yes.

Mr. COX. And throw that upon the banks to redeem their notes?

Mr. ECKELS. Yes; after the Government has gotten rid of its obligations.

Mr. COX. You assume the Government has first disposed of its obligations and then redemption shall be made by the banks; that is the first principle?

Mr. ECKELS. Yes; in gold.

Mr. COX. Either through the banks or a proper agency established by law?

Mr. ECKELS. That is, the banks shall be responsible for the redemption in gold of all promises to pay which they issue.

Mr. COX. And you do that through the banks and not through the Government at all. That is the first principle you have announced?

Mr. ECKELS. Yes.

Mr. COX. The next point, as I understood you, as the basis of circulation you would take at least a considerable part of the assets of the bank?

Mr. ECKELS. I think that gradually that point could be reached, but it could not be at the outset.

Mr. COX. At the outset, then, you would have to have some other basis?

Mr. ECKELS. Either the guaranty of the Government or a basis of security, although, as I announced, I believe that the issuing of notes against credit is the theoretically correct principle in banking. The principal difficulty in adopting such a course at the outset lies in the fact that the people are not educated to handling and believing in a currency not secured by a deposit.

Mr. Cox. There are two fundamental principles you start out with. Now, the third one I want to call your attention to.

The CHAIRMAN. Let me ask a question right there. You mean to say issuing against the credits of a bank without Government guaranty?

Mr. ECKELS. I say, theoretically, I think that is the correct principle.

The CHAIRMAN. Under the circumstances you would require a double guaranty?

Mr. ECKELS. At the outset, the Government guaranty or a deposit.

Mr. Cox. Those two principles settled in a bill, then I want to ask, if you issue your circulation upon the assets of a bank, to what extent do you think you could go with perfect safety upon that?

Mr. ECKELS. I would not want to undertake more than 25 per cent. That I would regulate by a tax, too.

Mr. Cox. Regulate by a tax, do you mean, or provide a safety fund?

Mr. ECKELS. I would have a safety fund for that, too, but I also would impose a tax upon that part of the circulation, so that it would not remain out any longer than it was absolutely necessary and that banks would not issue that character of currency in excess.

Mr. HILL. Do you not think that the effect of a compulsory gold redemption on demand by the banks would of itself be a sufficient restrictive without a tax?

Mr. ECKELS. Well, yes; I have no doubt it would, but——

Mr. HILL. Then why put a tax on?

Mr. ECKELS. I would simply do that at the outset as an additional precautionary measure.

Mr. HILL. I mean if you limit it to 25 per cent of the capital?

Mr. ECKELS. Possibly the tax would not be necessary at all.

CIRCULATION TO PAR VALUE OF BONDS.

Mr. Cox. One other question. This is rather disconnected from the point here, but we have a bill which has passed this committee, and which is in the House, which proposes to permit the banks to take out circulation up to the par value of the bonds. That has been recommended, as you know, several times by you and your predecessors in office. If this privilege is given to the banks to take out circulation up to the par value of the bonds, do you, or do you not, think it wise that the law ought to be compulsory to make them take out circulation up to the par value of the bonds?

Mr. ECKELS. No, I do not believe any law ought to be compulsory as to the amount of circulation that should be taken out or the amount that should be retired, for if a law is placed on the statute books to that effect the element of elasticity is thereby removed and a hard and fast line is fixed by saying instead of the banks regulating the amount of circulation which should be issued according to the business needs of the country, as they see it from day to day, they shall, irrespective of those needs, keep out so much circulation.

Mr. JOHNSON. And, as I understand it, the business needs of the country should be the criterion as to the amount to be put out?

Mr. ECKELS. Yes, entirely so.

Mr. HENDRICK. I wish to ask a question of the chairman. I thought it was understood Friday afternoon, when we adjourned, that when we met to-day the Comptroller was to continue his suggestions without interruption. Have we changed that rule?

Mr. ECKELS. Before going on further I wish to be permitted to make a personal statement. I have come before the Banking and Currency Committee at the request of the committee, not for the purpose of presenting a bill of my own or with any set plan or statement, because I have not prepared either a bill or a statement. My only purpose is, if I happen to have any knowledge upon the subject that it is desirable to obtain, to answer such questions as may be put to me upon the lines which suggest themselves to the members of the committee. I wish to cooperate with them in gathering information that will enable them to arrive at a conclusion as to what ought to be done in the construction of a safe and practical bill. I think pertinent to the matter is any question which affects our present monetary condition. My idea has always been that when the difficulties under which the country labors from a financial standpoint are solved they will be solved through the agency of a properly constructed banking bill. It is through that agency the country must obtain relief from the difficulty which the Treasury Department has in handling its demand obligations, and also the difficulties which it labors under from its silver currency. Holding to this view, it seems to me before a bill can be properly drawn members must inform themselves upon not only one branch of the country's monetary affairs, but upon every branch, because each one is dependent upon the other. If one evil is corrected and half a dozen other evils are not, the country will not be much better off than it was at the start. As all these questions are independent, the Banking and Currency Committee ought, in my judgment, to give this inquiry a very wide range, and when it obtains all the information possible it can then construct a measure which will meet the needs of the country.

COMPULSORY NOTE ISSUES.

Mr. COX. I want to state, Mr. Chairman, that this question I am propounding to Mr. Eckels is fundamental and included in the bills before us and I am trying to see how it will work. Now, going back to the last question I asked you when I put the proposition, "Would it be wise to make the banks take out the circulation if we gave them the right to issue up to the par value of the bonds," your answer to me I fully appreciate, but I do not think you quite got my idea. That is, if we gave the right to issue up to the par value of the bonds and they deposited the bonds they take out circulation from the Government under that system?

Mr. ECKELS. Yes.

Mr. COX. Now, I do not mean to say they shall put that into circulation, but I mean to say they shall put it into the banks. The object of that is to prevent quite a number of these banks from depositing the bonds and taking out no circulation at all?

Mr. ECKELS. I think there are only seven or eight banks in the system which deposit the bonds the law requires of them on the organization of a bank and do not take out any currency. It will be found, with the exception of the seven banks mentioned, that circulation is taken out, though not in very large amounts; but the impression that I received from your question was that if the banks were permitted to issue up to the par value of the bonds, there should be a compulsory statute which would make it absolutely incumbent upon them to take out the amount of circulation to which they would be entitled under the previous banking act.

Mr. COX. Then, to bring the point right out, that would not force the banks, as a matter of fact, to pay their money out over their counters.

I am transferring circulation up to the par value of the bonds out of the Government vaults into the vaults of the banks, and the object is to have the money there, so when an emergency arises, if it arises, of course they can apply to the Government and get it, but it prevents any bank from depositing bonds—and I know there are not many of them—and taking out no circulation at all. That is the idea I had in the matter, and I wanted to see how it would work.

Mr. SPALDING. I simply want to ask a question in line of his thought. What serious objection, in your mind, would there be to authorizing the issuing up to the par value of the bonds, and, say, 50 per cent of the surplus of the bank to be issued as a credit currency, to be a first lien on all the assets of the bank? It would be an inducement for a bank to keep a surplus, and there would be some profit in it, and it would limit the amount of circulation to the par value of the bonds and 50 per cent of the surplus of said bank?

Mr. ECKELS. I think there might be danger of inflation. I think if you start out with too large a percentage at the outset——

Mr. SPALDING. You can cut it to 25 per cent.

Mr. ECKELS (continuing). That there would be possibly some doubt as to the ability of the bank to redeem its notes.

Mr. SPALDING. That is the doubt I have in my mind.

ABILITY OF BANK MANAGERS.

Mr. ECKELS. The whole gist of the thing, as far as credit currency is concerned, however, turns really upon the ability with which the banks are managed. One of the greatest of economic writers has called attention to the fact that a great many years ago a very large number of the banks of England failed and there was a total loss to the note holders of notes issued by them against the assets of the bank. At the very same time there was not a single bank in Scotland failed, although the notes of the banks of Scotland were issued in the same way as the notes of the banks in England against credits. When asked for an explanation, he said the difference was in the fact that the banks of Scotland which did not fail were conducted by bankers who understood their business, while the banks of England which did fail were in the hands of bankers who did not.

Mr. FOWLER. That is, the credit part of it.

Mr. ECKELS. Yes; the credit part of it. While I have no doubt that a large majority of the people here who are engaged in the banking business could issue bank notes without a single dollar of deposited security, and maintain themselves, the factor which would make such course a possible cause of weakness would be the fact, as previously stated, that people who are not educated to a credit currency but are educated to a bond security or Government guarantee, would not without every precautionary measure thrown about such a currency have complete confidence in it and accept it readily. It will have to be introduced gradually. It is to be remembered, as I stated on Thursday, that banks have not been kept from failing in this country because of the bond deposit security for circulation, but because those in the management of them had conducted them, on the whole, with skill; and, therefore, with the same methods of banking and the same men in control, there would not be any greater number of failures under a different method of issuing bank notes.

Mr. SPALDING. Then you would not consider it a safe method for general banking law to go beyond the actual deposit security for the bills which were issued?

LIMITED CIRCULATION AGAINST ASSETS.

Mr. ECKELS. I do not say that. I say it would. I should permit that increase against the credits, but I should limit at the outset that amount.

Mr. SPALDING. That is what I want to know.

Mr. NEWLANDS. To what amount?

Mr. ECKELS. I stated that I thought we might safely try 25 per cent.

Mr. SPALDING. As I understand it, it goes right to the gist of most of these bills, with the exception of Mr. Brosius's bill, and to give a clear idea of the banking bill it would be this, that over and above the par value of the bonds dependent upon the surplus of the bank, 25 per cent of said surplus of the bank might be issued—not to exceed that?

Mr. ECKELS. I do not think I would limit it to 25 per cent of the surplus—25 per cent of the capital.

Mr. SPALDING. And to be a first lien upon all the assets of the bank, so that before any depositors are paid the bill holder is to be taken care of?

Mr. ECKELS. That is on the theory that a note holder is entitled to greater consideration than a depositor or holder of a check. The reason given for the theory is that a note holder is rather compelled to accept a bank note, while the action of a depositor is a voluntary one.

The CHAIRMAN. There is another point—that the note holder is in no position in his relations to business to know whether a bank is sound or not, as compared with the business man, who is expected to know whether banks are sound or not. That is a large element in the case.

Mr. SPALDING. This I believe to be your position: If a $100,000 bank deposits sufficient bonds it might issue $100,000 in bank currency, and then it could, at discretion, issue $25,000 more, and the $25,000 would be guaranteed by the entire assets of the bank, and the $100,000 which had been issued prior to that would be guaranteed by the bonds of the United States?

Mr. ECKELS. I think that is perfectly feasible.

Mr. JOHNSON. I only desire to submit an observation, and that is this: Under the present banking system the first lien of the note holder upon the assets is not looked upon with any dread by the depositor, as the bonds are sufficient to pay the notes, but under a system of banking upon assets alone, if the first lien upon these assets were given the note holder, the depositor would feel that he had less chance for payment in the event of a failure, because in that event the note holder would exhaust his assets for the payment of his debt.

Mr. ECKELS. That is undoubtedly so, and that is the very reason why nothing distinctively radical can be entered upon at the outset.

Mr. JOHNSON. I am quite sure, from communications I have received from various sources on this subject, that a great many people look with disapprobation upon bank assets as a first lien for note holders without a bond security, for the reason that they think it would cause great loss to the depositors. I think your suggestion that there be a limited amount of banking on assets is very much to the point in this connection.

Mr. ECKELS. Then, of course, such notes would have to be convertible in gold on demand, and if the bank failed to convert its notes in gold on demand it should be considered to have committed an act of insolvency and the bank assets taken into possession for the purpose of first paying off the note holders and then of paying off the creditors not note holders.

Mr. FOWLER. You have said that you thought at the start they might be allowed 25 per cent, but as I understand you it is your opinion that as people become accustomed to issuing credit currency and redeeming it in gold they might ultimately issue whatever the demands of business required, to the amount of their capital and surplus, possibly?

Mr. ECKELS. Yes.

Mr. JOHNSON. Your idea is that when people grow accustomed to this system and have confidence in it, it can then be extended?

Mr. ECKELS. When people find out that they can take these bank notes and go to a bank or a redemption agency and get gold, the system is established and given with entire confidence. It will then be seen that instead of wishing to carry gold the note holders prefer to carry the promise to pay in gold issued by the banks in the form of currency. It is just exactly as if I should go to a man and borrow $100,000. When it came time for payment, if he knew I had the money he would not be particularly anxious to have it paid back if it was not needed by him to buy something more desired than my note. The same rule would prevail with holders of bank notes. If they found whenever they went to a bank they could get gold of the bank for the bank's promises to pay which they held they would prefer the convenience of the paper promise to pay to the piece of metal for which they could exchange it. Back of it all is the maintenance of the credit of the issuing bank by its ability to convert into gold its promises to pay whenever these promises to pay are presented for redemption.

Mr. SPALDING. There is one idea I want to clear up in my mind and possibly the minds of some of the other members of the committee. Take, for instance, a bank with a capital of $50,000. Say that bank can issue currency to 25 per cent of its capital. Now, if it was desired by the board of directors, they might issue $12,500 on the capital stock of the bank without purchasing any bonds under that 25 per cent arrangement, which would prevent such a demand for bonds that might be called upon to enhance their value way above a point where it would be profitable to issue on them, and in this way it would be left entirely to the discretion of the banks, would it not?

VALUE OF BONDS INCREASED.

Mr. ECKELS. There is, however, one point which is worth considering in connection with the issuance of currency to the par value of bonds. Unless it is checked some other way, such increased circulation is liable to increase the market value of the bonds and to that extent decrease the profit upon the circulation, and the same difficulty which is now apparent may have to be confronted. It might be regulated by a counterbalance in the shape of a certain amount of credit currency.

Mr. COX. If you issue to the par value of the bonds will not it necessarily increase the value of the bonds?

Mr. ECKELS. I think that it would tend to. Like any other instrument the greater the results to be obtained from it the more valuable would it become in the market.

Mr. COX. As the value of the bonds increases, the tendency is to refuse to take out circulation?

Mr. ECKELS. Yes; under existing law. But despite the fact that the increased amount granted would increase somewhat the value of the bond, my opinion is that it would not increase it to the extent it would increase the profit on the circulation. The profit, though, on circulation

would not be brought up as largely as may be expected without an increase in the value of the bond unless there is permitted a certain amount of credit currency to be issued after a certain amount of bond or guaranteed currency had been issued.

The CHAIRMAN. If you desire to add anything in a general way, according to the suggestion of Mr. Hendrick, before we proceed to the bills, I hope you will do so.

BANK RESERVES.

Mr. ECKELS. I would like, before the committee takes up the bills specifically, to be permitted, for the purpose of enlarging and possibly clearing up a little, to recur to a subject which was unfinished when I left on Thursday. I wish to recur to the general subject of reserves which Mr. Newlands suggested in the various questions which he asked.

The tenor of his questions was to the effect that an issue by the banks of all the credit currency redeemable in gold would find this country in a position of having its banks undertake to carry a very large amount of bank issues without the requisite gold reserve. He further suggested that in addition to the gold reserve which it would be necessary to maintain against the notes, the necessary amount of gold reserve would have to be held against bank deposits. He reasoned from the amount of bank deposits and the estimate of the amount of bank-note currency which the banks would be compelled to assume, this country, according to the statement of the Director of the Mint and according to my statement as to the amount of the gold there was in the country, would find itself without what he estimated to be necessary and what he stated I admitted to be necessary. It would find it had not the amount of gold which it ought to have for those purposes.

ESTIMATING AMOUNT OF RESERVE NEEDED.

There are some elements which ought to be considered in connection with this question. One of the elements is that you can not estimate what amount of gold is necessary for the purposes that he suggested as a safe reserve by the amount of gold which seems to be carried in the countries which have not a highly developed banking system. For instance, you can not estimate how much gold is needed in the United States by the amount of metallic reserve which is considered to be essential in France or in Germany, for the reason that in those countries the people are not educated to the point of using checks and credit instruments in the payment of obligations. The fact is that the people least advanced in business use the greatest amount of precious metals in making transfers of property, and that in the highest developed business countries the least metallic money passes from hand to hand in bringing about such transfers of property. Thus, for instance, England, which, I suppose, carries on the greatest transactions of any country in the world, employs the least amount of gold with which to so do.

Because of our development in the lines mentioned, in this country it would be found that there would be less gold required to hold as bank reserves against deposits and for the purpose of note redemptions than in any of the continental countries of Europe, and as little, in proportion to the amount of business, as is required in England.

NO DEMAND FOR METALLIC MONEY.

It could not be estimated that in this country it would be necessary to carry the same amount of gold reserve against bank notes as is essential to carry against bank deposits, for the reason that people do not want to carry about metallic money. An illustration of this is shown in the fact that the silver dollars themselves can not be gotten into circulation, because nobody wants to carry a silver dollar if he can get a paper representative of it. The amount of gold reserve required as against the bank notes issued would be found to be comparatively a very small per cent. As an example, take the national-bank notes to-day. They are sustained without any difficulty at all by the deposit in the Treasury of a 5 per cent redemption fund of lawful money, and certainly there could not be any greater amount of gold required as against the new notes to be issued.

Mr. HILL. Without the greenbacks?

Mr. ECKELS. Yes, if banks were properly conducted, if they maintained their credit; because the whole thing turns upon the credit which the bank would maintain.

The CHAIRMAN. In other words, it would be discovered by actual practice——

Mr. FOWLER. That is the experience practically in Scotland?

Mr. ECKELS. Yes; in Scotland; and it is the experience practically in England, because, as I have said, in proportion to the amount of business done the percentage of gold used in England is comparatively nothing.

DECREASING USE OF METALLIC MONEY.

As the banks improve the instruments of credit and exchange there will be a corresponding decrease in the use of metallic money. It will come about that the only thing metallic money will be used for will be as a precautionary measure, as reserves in a greater or less amount against bank deposits, as a small reserve against bank-note issues, and to settle international balances. As there is developed in communities or sections which can maintain them systems of clearing houses, the balances to be settled in gold will be still further reduced in amount, because with a properly constituted clearing-house system either cities or communities will from day to day leave only a very small balance to be settled between the members of it in actual money.

Mr. BROSIUS. May I interrupt you with a questisn on that point? Do I understand you to convey the idea that the amount of redemption in a general way will depend largely upon the credit or paper money of the country?

Mr. ECKELS. The current redemption.

Mr. BROSIUS. Do you mean to distinguish between current and final redemption when you say after the establishment of the credit money, in case that event should come to pass, there would not be any more gold required for redemption than there is now under the present system of redemption?

ULTIMATE REDEMPTION A MATTER OF FANCY.

Mr. ECKELS. Yes, for the reason that about all that is to be estimated on in the matter of promises to pay on the part of banks is current redemption, because what is called ultimate redemption is

largely a matter of fancy. Nobody wants ultimate redemption if he can have current redemption, except the man who wants to hoard money.

Mr. BROSIUS. You were speaking of current redemption when you made the statement?

Mr. ECKELS. Yes.

Mr. BROSIUS. My inquiry is, and I would like to know whether or not I entirely comprehend you, whether the amount of current redemption depends largely on the general credit of the paper money, paper currency, and if, in the public belief, all the paper currency and bank notes are equal, the current redemption would be very limited?

Mr. ECKELS. Very limited, and then——

Mr. BROSIUS. And the necessity for that would be very limited also?

Mr. ECKELS. Yes; that is, as I say, as your bank system improves it makes every dollar an efficient dollar, and instead of bearing a single transaction it will bear a great many.

Mr. SPALDING. Would that change conditions in regard to the demand for gold that has been upon the country for the last four or five years? I am speaking now of the actual demand for gold to go abroad.

GOLD HOARDED.

Mr. ECKELS. I do not think it would. The great difficulty which has caused the demand for gold has been because of the fear that the United States would not maintain its gold payments and a large part of the gold that has been withdrawn has not gone out of the country but has been hoarded.

Mr. SPALDING. That could not have been in regard to Austria; they came here and bought it.

GOLD MERELY A COMMODITY.

Mr. ECKELS. And that is what everyone does who requires gold. Gold or any other form of money is simply a commodity, and if a man wants it he has to go and buy it. He either exchanges labor or the product of labor for it. If this country needs $100,000,000 of gold to meet the business demands of the country, the banks in this country will buy that gold. If this country does not need $100,000,000 of gold and some other country needs it, that other country will buy it from us. It will be found that if these needs are permitted to be regulated by business agencies, and not undertaken to be entirely directed by statutory law, the largest portion of the monetary difficulties of the country will be solved.

The CHAIRMAN. Right here let me give you a few figures which will help us all. In the last sixteen years there were only three years, 1889, 1891, and 1893, that our exports of gold exceeded our imports and production, and we accumulated in those sixteen years, that is to say, our imports and productions over exports, $629,274,010. We exported $102,575,144, making a net increase of gold in those years of $526,698,866, and of the products and imports it is estimated that $229,672,156 were used in the arts.

Mr. NEWLANDS. I would like to put some inquiries to Mr. Eckels with reference to the statement as to the reserve, but the question comes up as to the orderly course of proceeding.

Mr. ECKELS. If I am to be consulted I would prefer to have the inquiry take just as wide a range as possible. Whatever knowledge can be obtained on the subject, the committee ought to have the benefit

of it. I do not know how much information I can give on the subject, but if any I shall be glad to give it.

The CHAIRMAN. I think we could cover a broader field in much less time if we ask the questions on the bills we have before us and get the views of the Comptroller on them; but Mr. Newlands has the floor.

Mr. NEWLANDS. I was going to say that when I appeared here at the meeting last Thursday it was about 12 o'clock and I believe the proceedings commenced at half past 10. I found Mr. Eckels was then undergoing cross-examination from different members of the committee and I supposed that he had finished his general statement and it was in order then for any member of the committee to question him. Objection was made to my line of inquiry, and a misapprehension arose between Mr. Hill and myself. I thought Mr. Hill was endeavoring to check that line of investigation or cross-examination, which I thought entirely relevant and pertinent, and which I now understand he thinks was entirely relevant and pertinent, and which certainly Mr. Eckels thought was relevant and pertinent, whereas his real purpose, as I understand it, was to bring the committee down to an orderly method of proceeding and to first exhaust Mr. Eckles upon the general statement regarding these bills and then to have an examination by members of the committee. I do not want to trespass too much upon the time of the committee, but there are some important matters on which I would like to question Mr. Eckels in reference to this general subject, and the question is, When shall I do so; shall I go ahead now, Mr. Chairman?

The CHAIRMAN. Certainly, if that is the disposition of the committee.

Mr. NEWLANDS. If you wish Mr. Eckels to go on with the inquiry regarding the bills I will postpone the examination until later on.

The CHAIRMAN. My judgment is we should go along wholly on the lines of the bills, and then take the other matters up subsequently; but Mr. Newlands has the floor.

Mr. NEWLANDS. Very well. Mr. Comptroller, you think that as yet there is no country in the world which has reached perfection in the use of credit facilities?

Mr. ECKELS. No, I think there is an evolution going on in that respect, just as in the matter of transportation.

Mr. NEWLANDS. The advance of civilization will still further utilize credits and bring about a lesser use of metallic money?

Mr. ECKELS. Yes.

CREDIT FACILITIES IN VARIOUS COUNTRIES.

Mr. NEWLANDS. Now, what country, in your opinion, has reached the highest perfection in the use of credit facilities?

Mr. ECKELS. Well, I think the English people have.

Mr. NEWLANDS. You do not think the French or Germans have?

Mr. ECKELS. No; not as high as the English.

Mr. NEWLANDS. What country next to England, in your judgment?

Mr. ECKELS. I should say the United States.

Mr. NEWLANDS. So, in this advanced condition of the use of credit facilities, England stands first and America next?

Mr. ECKELS. Yes.

Mr. NEWLANDS. What country would you put after America?

Mr. ECKELS. I do not know as between Germany and France.

The CHAIRMAN. In speaking of England, do you refer to the United Kingdom?

Mr ECKELS. I mean Great Britain.

Mr. NEWLANDS. I understood you to mean that.

Mr. ECKELS. I spoke of England as being Great Britain.

Mr. NEWLANDS. You say in this country, as to the reserve for the security of a bank issue, the issue of bank currency need not be as large as the reserve for deposits?

Mr. ECKELS. Yes.

Mr. NEWLANDS. And you understand the 5 per cent redemption fund in the case of the national-bank notes has been ample?

Mr. ECKELS. To furnish current redemption.

Mr. NEWLANDS. Is it not a fact that the national-bank notes can be redeemed by the banks in any lawful money?

Mr. ECKELS. Yes.

Mr. NEWLANDS. That includes greenbacks?

Mr. ECKELS. Yes.

Mr. NEWLANDS. So that in addition to the 5 per cent redemption fund the national banks have $346,000,000 of greenbacks in the country to draw upon for redemption, have they not?

Mr. ECKELS. A part of that; of course they are compelled to keep this redemption fund in lawful money with the Treasury. That is the only fund which they have for current redemption.

PLACE OF CURRENT REDEMPTION.

Mr. NEWLANDS. That is the only fund they have, but they can redeem at the bank counters in currency?

Mr. ECKELS. Yes.

Mr. FOWLER. Can you give any information as to how much?

Mr. ECKELS. They do not as a matter of fact redeem at the bank counter. It is done here at Washington.

Mr. NEWLANDS. But they can?

Mr. ECKELS. They can, but they do not.

Mr. NEWLANDS. As I understand you, in this new system greenbacks are to be eliminated from our circulation?

Mr. ECKELS. Yes; because it is rather an absurdity to say you redeem something with a redemption that has to be redeemed itself.

Mr. NEWLANDS. That is the case now?

Mr. ECKELS. It is like undertaking to have two redemption moneys, when, as a matter of fact, one redemption money is redeemable in something else.

RUSSIA AND THE GOLD STANDARD.

Mr. NEWLANDS. The report of the Director of the Mint, as I showed the other day, shows that England, France, and Germany have two billions out of the four billions of the gold in the world. You know that Russia is endeavoring to reach the gold standard. What, in your judgment, has prevented Russia from reaching the gold standard and being successful in making gold redemptions?

Mr. ECKELS. The general condition of the country and the characteristics of the people, the enormous expenditures which the Government has been compelled to make to maintain itself at home, and its enormous rates of taxation upon the people. It is largely because of such adverse conditions.

Mr. NEWLANDS. Is the credit of Russia good in the markets of the world?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Do you know how much gold she has accumulated?

Mr. ECKELS. No, I do not; but it is a very considerable sum.

Mr. NEWLANDS. Is that gold maintained in circulation in Russia?

Mr. ECKELS. I think part of it is and part of it is reserved. There are certain of their currency credit instruments redeemed.

Mr. NEWLANDS. Is it not almost all of it in the treasury of Russia?

Mr. ECKELS. Yes; a very large portion of it, and it is a great waste to keep it there.

Mr. NEWLANDS. The Mint Director's report shows that the amount of gold in Russia was $480,000,000. Now, will Russia be obliged to get more gold in order to make gold redemptions and to maintain the parity of their uncovered paper with gold?

Mr. ECKELS. I should take it with the general characteristics of the vast mass of the Russian people that they would require a larger percentage of gold for current redemption of their notes there than with a people such as the people we have who are used to banks of deposit and discount.

Mr. NEWLANDS. Russia has $539,000,000 of uncovered paper money and only about $48,000,000 of silver and $480,000,000 of gold. Now, is it your opinion that in order to successfully make gold redemption and to maintain the parity or restore the parity between its uncovered paper and gold, it would be necessary that they should have a larger gold reserve than now?

Mr. ECKELS. I would not undertake to answer the question, because I do not know the local conditions and methods and machinery of exchange in Russia, but I do say upon general principles that it would require a larger percentage in Russia than it would in the United States. Notwithstanding this, the fact is that if it required a larger percentage, Russia, like the United States, could get the necessary gold by paying for it, and if upon the banks was placed the necessity of redeeming this uncovered paper, the banks are equipped with the machinery for getting the gold, because they have the things to sell in order to buy it.

Mr. NEWLANDS. Do you know whether this uncovered paper money of Russia is Government or bank paper?

Mr. ECKELS. As I remember, some of it is Government and some of it is bank paper.

Mr. NEWLANDS. Do you know the proportion?

Mr. ECKELS. No; I do not.

Mr. NEWLANDS. Do you know what relation that uncovered paper money bears to the gold, how much discount it has?

Mr. ECKELS. No; but as stated on Thursday, there is a considerable discount on all of them.

Mr. NEWLANDS. Somewhere near 50 per cent, is it not?

Mr. ECKELS. Yes.

Mr. NEWLANDS. I presume you admit, then, that if Russia is not able to keep its uncovered paper money at par with gold, more gold is required in that country, unless they reform their methods?

Mr. ECKELS. I think undoubtedly more gold might be required in Russia under its present conditions, but at the same time I think that if it was required there it would not be required somewhere else and the surplus somewhere else would go there if proper inducements were offered.

AUSTRIA AND THE GOLD STANDARD.

Mr. NEWLANDS. Now take Austria. Austria, according to the Mint Director's report, has $140,000,000 in gold, $120,000,000 in silver, and

$204,000,000 of uncovered paper money. Is it or is it not your understanding that Austria is not able to maintain the parity of its paper with gold?

Mr. ECKELS. I do not think it has fully succeeded, but it has started to bring them to a parity.

Mr. NEWLANDS. It is endeavoring to go upon the gold standard and restore the parity between its paper money and gold?

Mr. SPALDING. Excuse me, but they are on the gold standard; they are not going to the gold standard.

Mr. ECKELS. Austria has the gold standard and is undertaking to bring about parity. In connection with all these questions based upon the facts that are obtained from the report of the Director of the Mint, is to be kept in mind the fact that if Russia, if Italy, or any other country wants gold it is going to be able to get it by giving in exchange the things which those people who have gold want more than they want gold. So that if the people of the United States had here a surplus of gold they would sell that gold to Russia or Italy, and our people would be better off for having done so, because they have received in exchange for it the things which they want more than they do the gold. I do not believe in the theory that the wealth of the country is in the number of dollars in gold or silver which its people have, but it is to be estimated in the things which have been or can be, if necessary, exchanged for gold.

Outside of the fact that our Treasury conditions are such that business is embarrassed by this going of gold out of the country, there have not been any adverse conditions in the way of wealth holdings of the people by it, except as they have lost through the disturbance in business credit which it has created. In each instance they have exchanged the gold for something which they needed more, and added more to their welfare, instead of lessening their wealth by the gold which has gone out. The only difficulty is that it has been taken from the Government at a time when the Government had demand obligations out which our own and other people were holding, and which they feared were not going to be redeemed, and therefore commenced to hoard and contract, and the credit of the Government being thus impaired, it affected the credit of every business enterprise which was more or less dependent upon the credit of the Government.

Mr. NEWLANDS. I understand your view is that more gold is required in the monetary system of every country, and that involves also the admission that a proper amount of gold is required in every country.

Mr. ECKELS. Yes.

Mr. NEWLANDS. In your statement, as I understand it, some countries may have a surplus and others have a scarcity, and those that have a scarcity can always get the gold from the countries that have a surplus.

Mr. ECKELS. If they pay enough.

Mr. NEWLANDS. I am indicating now the countries which have a scarcity of gold. We have been through Russia, and we are now at Austria-Hungary, and I assume as to the requirement of different countries for gold that they have enough when they are able to keep their uncovered paper money at par with gold. Is that a correct assumption?

Mr. ECKELS. Yes; but they always get enough gold if they have something to exchange that people who have gold would rather have than the gold.

The CHAIRMAN. Does it not involve also a sound financial system?

Mr. ECKELS. Those are all contributing circumstances as well as the business habits of the people.

Mr. WALKER (Mr. Brosius in the chair). I move that when the committee adjourns, as I am obliged to be away now, that it adjourn to meet to-morrow and continue this hearing, and that at to-morrow's session Mr. Eckels's mind be directed to the bills submitted to him.

The motion was agreed to.

Mr. CALDERHEAD. Is it the purpose of your inquiry to show there is not gold enough available for banking purposes?

Mr. NEWLANDS. I propose to question Mr. Eckels as to the existing stock of gold. I can not tell whether Mr. Eckels will develop the fact whether there is gold enough in the world or not.

Mr. CALDERHEAD. Is that what you are trying to ascertain?

Mr. NEWLANDS. I am trying to ascertain now whether there is enough gold in the world for us to do business; whether we can get it, and where we can get it.

Mr. CALDERHEAD. Is not the question before us, whether we can establish a banking system or not, without reference——

Mr. NEWLANDS. We already developed the other day that $950,000,000 of gold will be required in this country as a practical reserve.

Mr. FOWLER. Did Mr. Eckels say so?

Mr. ECKELS. I beg your pardon; what was that?

Mr. NEWLANDS. I understood you to say the other day you regarded 18 per cent as a fair average reserve for banks to hold as against deposits, and that that should be held in gold, and you stated that the amount of deposits in the country you estimated to be about $5,000,000,000, and 18 per cent of that would be $900,000,000, and I understood you to estimate that if the credit currency of the country were issued by the banks instead of by the Government the total issue would approximate $1,000,000,000, taking the place of silver certificates, Treasury notes, greenbacks, etc., including the present national bank notes, and a safe gold reserve for redemption purposes as against this $1,000,000,000 would be 5 per cent, or $50,000,000. That would make, then, the total reserve of gold in this country $950,000,000, would it not? Now, then, I am simply pursuing the inquiry as to where we are to get that extra $250,000,000.

Mr. ECKELS. We can get it in England; we can get it in France; we can get it in any country which has gold to sell, and there is no country but has gold to sell if we are willing to pay for it, and there has never been a time yet, Mr. Newlands, where a country maintained its credit, that it could not obtain all the money that it wanted for the purpose of carrying on the business of that people.

Mr. NEWLANDS. Well, I admit that. Understand me, I do not propose to get into any contention on that; I am simply getting at the facts.

Mr. ECKELS. I understand that, perfectly.

Mr. NEWLANDS. We will assume, now, that $950,000,000 is needed and we have only got $618,000,000, according to the statement of the Director of the Mint, and $700,000,000 according to your statement, and at least $250,000,000 more of gold will be required; and you must admit——

Mr. ECKELS. If that amount was necessary.

Mr. NEWLANDS. You must admit, if we have not got it, it must come from some other country?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Now, I am directing my inquiry as to what countries

have a surplus and what countries have a scarcity of gold—what countries will require more gold in order to establish the monetary system which we have established and are endeavoring to maintain and what countries have a surplus of gold. Now, we have been through England, France, and Germany?

Mr. ECKELS. Upon that point you find that whenever the occasion arises that we want $250,000,000 of gold we find other countries have $250,000,000 of gold that they do not want as badly as they want something which they have not and which we have. There may be a time when we would have to have as much as $1,300,000,000 of gold, and there may be a time when we would be required to have but $400,000,000 of gold, or less. It would all depend upon the condition of business here, the amount of property to be transferred, the number of transactions to be carried on, and, most important of all, the state of credit maintained by the institutions which are issuing these promises to pay, and by the state of credit maintained by the borrowers of this country in dealing with those institutions.

PRESENT PRODUCTION OF GOLD.

Mr. FOWLER. In answer to his question, where would the United States get the gold, isn't it a fact that the world is now producing about $250,000,000 in gold a year? Isn't that the prospect of the present year?

Mr. ECKELS. That is the estimate, but if it were not producing that much we could get it if we paid enough for it.

Mr. NEWLANDS. I will get down to the question of production in a moment.

Mr. JOHNSON. There has been a great impetus in the production of gold in the last four or five years.

Mr. HILL. Is it not a matter of fact that England to-day has only between 1 and 2 per cent of gold reserve as against its bank deposits and circulation?

Mr. ECKELS. I do not remember the per cent, but it is the smallest of any people.

Mr. HILL. About $484,000,000 against about $5,000,000,000 of bank deposits and bank credits—between 1 and 2 per cent.

Mr. ECKELS. It is not more than 2 per cent. I know it is a very small percentage.

Mr. NEWLANDS. That is nearly 10 per cent.

Mr. ECKELS. I think it is about 1 per cent. I said $5,000,000,000 of bank deposits and bank credits and a gold reserve of $484,000,000.

Mr. NEWLANDS. $500,000,000 is 10 per cent of $5,000,000,000.

Mr. HILL. That is correct.

Mr. NEWLANDS. Let us return to Austria, if you please. Do you know how nearly the uncovered paper of Austria has been brought to a parity with gold?

Mr. ECKELS. No; I do not know what the percentage of discount is. I have not examined those things because I desired to discuss the question upon the principles involved and not upon mere technical figures.

Mr. NEWLANDS. Could you ascertain?

Mr. ECKELS. Yes, I could ascertain, and will do so.

Mr. NEWLANDS. Would you be good enough to ascertain what the value of the Russian uncovered paper money is, and also the Austrian, and the Spanish, and the Italian, and the Portuguese—as compared with gold?

Mr. ECKELS. I will obtain those figures from the Director of the Mint.

Mr. SPALDING. They are quoted every day in the papers.

ITALY AND THE GOLD STANDARD.

Mr. NEWLANDS. Now, Mr. Eckels, according to the Director of the Mint, Italy has $98,000,000 in gold, $41,000,000 in silver, and $191,000,000 in uncovered paper money. Do you know whether or not Italy is able to maintain its uncovered paper money on a parity with gold?

Mr. ECKLES. I think it is not. I think I answered that Thursday—that it is not.

Mr. NEWLANDS. Do you know what the discount is?

Mr. ECKELS. No.

Mr. NEWLANDS. Assuming existing conditions, would you assume then that Italy required more gold in order to maintain the parity?

Mr. ECKELS. As I said of Russia, I do not know all the domestic conditions there, but the fact that they do not would seem to indicate that they have not either the methods which are essential, in the way of banking facilities, to make the amount which they have equal to the demand, or else they need more. As I said before, those people who have not these facilities undoubtedly require a larger amount to bring about the transfers of property among themselves than those that have, because they do not, as we do, transfer property by means of instruments of credit, but they transfer their property for that money which people handle, which in itself has the amount of value of the thing which is to be transferred for it.

At this point, upon motion of Mr. McCleary, the committee, at 12 o'clock, took a recess until 1.30 p. m.

AFTER RECESS.

The committee reassembled at 1.30 p. m., Mr. Brosius in the chair.

The CHAIRMAN. Mr. Eckels has the floor.

Mr. NEWLANDS. Shall I resume?

Mr. ECKELS. Yes.

Mr. NEWLANDS. I believe that we were on the subject of Italy. I observe by the Director's report that Italy has $98,000,000 of gold, $41,000,000 of silver, and $191,000,000 of uncovered paper money. Do you know whether or not that is maintained at a par with gold?

Mr. ECKELS. No; the uncovered paper is considerably below the gold.

SOUTH AMERICAN STATES AND THE GOLD STANDARD.

Mr. NEWLANDS. Discussing the smaller nations, we come down to the Mint Director's statement in reference to the South American States. He states that their stock of gold is $41,000,000; that their stock of silver is $31,000,000, and their uncovered paper money amounts to $550,000,000.

Mr. ECKELS. Is that for the whole of the South American Republics?

Mr. NEWLANDS. Yes. Do you know whether any of that paper is maintained at a parity with gold?

Mr. ECKELS. I think all of it is, to a greater or less degree, below par.

Mr. NEWLANDS. Do you know whether any of the South American States have recently gone to the gold standard?

Mr. ECKELS. Yes; Chile has recently gone to the gold standard.

Mr. NEWLANDS. Has Brazil also?

Mr. Eckels. Yes.

Mr. Newlands. Do you know whether or not they are able to make gold redemption?

Mr. Eckels. I do not think they have the machinery all perfected for it yet in an unlimited degree; they do it to a certain extent.

Mr. Newlands. Do you think it a wise thing for those countries in South America to adopt the gold standard?

Mr. Eckels. I think it is a wise thing for any country to undertake to put its standard of value upon the basis of the great commercial nations of the world.

Mr. Newlands. In order to do that and make gold redemption they will require more gold, will they not?

Mr. Eckels. For the reason only that any country that is not in the habit of using banks and has not banking facilities requires more gold than other countries that have those facilities. I may say in a general way, as applying not only to the question in regard to the South American Republics, but as applying to Italy, Russia, and the other countries you have mentioned, that if those countries had the same facilities for banking that the United States has, they would not proportionately require any more gold than the United States—that is, if their people were in the habit of using banking facilities. The same way with the South American Republics; and when I am asked whether or not I think they would not have to increase their gold to meet the demand of the redemption of their notes, the proper answer should be that they either would have to increase their gold holdings or increase their banking facilities, and have their people use them. If they could increase their banking facilities and the people use the banks, then undoubtedly they would not require more than a nominal, if any, increase in their gold holdings.

That which is to be done in the United States when you come to enact a banking measure can not be gauged by what is done or is necessary in Italy, Russia, or the South American Republics, because in those countries there is a different character of people, differently conducting their banking, with different means of carrying on commerce, and different methods of doing things. And while Italy or Russia or the South American Republics might necessarily require a large amount of gold to accomplish the same thing that the United States does, it does not follow that the United States would require a proportionate increase to do it. The people of the United States understand the use of credit instruments and those people do not, and do not employ them.

Mr. Newlands. But you would expect those countries proportionately to require just as much gold as the United States?

Mr. Eckels. Yes.

Mr. Newlands. Well, now, Italy, for instance, with 30,000,000 people——

Mr. Eckels. No; I would not, unless you figure the proportionate number of transfers of property in Italy as compared with the number of transfers of property to be made in the United States, because you do not estimate by population—that is the least important thing—you do not estimate correctly by any other thing than by the numbers of transfers of property which are to be facilitated by the use of a medium of exchange.

Mr. Newlands. In other words, the volume of business.

Mr. Eckels. Yes; the volume of business.

Mr. Newlands. You think that a country that has a very large volume of business, very many transactions, will require more gold as the

basis of its monetary system than the one having a lesser volume of business.

Mr. ECKELS. Unless there prevailed in that country the transfer of property through the intervention of bills of exchange, checks, and credit devices. It would all depend upon these outside circumstances.

Mr. NEWLANDS. Now, the South American States have 36,000,000 people and only $40,000,000 of gold. We will assume that they all endeavor to go to the gold standard and that they have equal banking facilities with our own. Would they or would they not require more gold?

Mr. ECKELS. They would not if they had equal banking facilities with us and the people were educated to the use of banking facilities. In such case they would not require any more gold proportionately than we do.

Mr. NEWLANDS. They have $1 per head in gold, whilst we have in this country about $8 per head.

Mr. ECKELS. They might have to increase their gold holdings, but if they did they would be able to obtain them, because there never has been a time yet——

Mr. NEWLANDS. We have gone over a number of countries that have a large amount of uncovered paper money and small stocks of gold, and we will assume, now, that they have endeavored to go upon the gold standard. They will certainly require some more gold, will they not?

Mr. ECKELS. Or increased banking facilities.

Mr. NEWLANDS. Or else they have got to have a perfected banking system.

Mr. ECKELS. Yes.

Mr. NEWLANDS. Do you think it possible in a few years to accomplish a world-wide perfection of the banking system?

Mr. ECKELS. No, probably not.

Mr. NEWLANDS. Then, the demand for gold will precede the perfection of the banking system, will it not, in these countries?

Mr. ECKELS. Yes; but growing less instead of greater, because in each of these countries banking methods are continually being improved upon, and there is a corresponding lessening of the demand for the use of metallic money. There is, on the other hand, a largely increased yearly production of gold.

Mr. NEWLANDS. But, as I understand it, you regard a proper amount of gold as the basis of a proper banking system?

Mr. ECKELS. I do; for current redemption.

Mr. NEWLANDS. Would it not be possible for them to perfect the banking system without obtaining the proper amount of gold?

Mr. ECKELS. I think not.

Mr. NEWLANDS. That would involve an increased amount, to some amount, at least, in all these countries that have the large amounts of paper money at a discount.

Mr. ECKELS. Undoubtedly it would require an increase, but the increase in production is to-day larger in proportion than the increase in the demand.

Mr. NEWLANDS. Do you think the increased production of gold would meet this increased demand?

Mr. ECKELS. The increased production on the one hand, and it would decrease the demand for the use of gold in countries which are improving their banking methods.

Mr. NEWLANDS. Yes. Now, what country can you point out to me to-day that has a surplus of gold?

SURPLUS OF GOLD IN SEVERAL COUNTRIES.

Mr. ECKELS. I think there is a surplus of gold in England; I think there is a surplus in France; there has been a surplus of gold in the United States, and that is proven by the fact that our people wanted something more than they wanted the gold and they gave up the gold. There may not have been a surplus for the length of a year at a time, but there has been a surplus as the varying conditions of business have changed.

Mr. NEWLANDS. You think that the surrender of gold from a country is purely a voluntary matter?

Mr. ECKELS. Certainly. It is surrendered because the people of the country desire to get something which they consider of greater use to them than the gold.

Mr. NEWLANDS. The United States is, I believe, in the relation of its people to other countries, the greatest debtor nation of the world—I believe it is so regarded, is it not?

Mr. ECKELS. Yes.

THE EXPORT OF GOLD.

Mr. NEWLANDS. When the creditor countries throw their securities upon the American market for sale in gold and the export of gold is caused by that, do you think that the absorption of these securities and the export of gold is a voluntary thing by the people of the United States, and a pleasurable thing?

Mr. ECKELS. Probably at times it is not a pleasurable thing, and there may be immediate periods when it is a detrimental thing, but in the general average it is a beneficial thing.

Mr. NEWLANDS. Then, the export of this gold does not necessarily indicate a desire on the part of the country to let so much gold go to another country, does it?

Mr. ECKELS. No; it doesn't necessarily indicate that, but, on the other hand, it indicates that the people are able to get the gold to meet these demands.

Mr. NEWLANDS. It may mean that they are compelled to pay their debts—reluctantly?

Mr. ECKELS. Well, undoubtedly at times a man pays his debts reluctantly, but even if he does he feels more comfortable after he has paid them. Here is the difficulty in the taking of the gold from this country: It is taken direct from the Treasury of the United States in an unnatural way, instead of being taken through the agency of the banks, for the purposes of legitimate business in the natural course of business.

Mr. NEWLANDS. Now, if there is a surplus of gold in England, France, and Germany, how do you account for it that when the exports of gold increased within the last few months to this country from England, arising from our wheat sales, that the Bank of England rate of discount, which is normally about $1\frac{1}{2}$ to 2 per cent, was raised to 4 and 5 per cent? Wasn't its purpose to prevent the export of gold?

Mr. ECKELS. Undoubtedly it was, but it did not accomplish the purpose, because there were some things they wanted more than they did gold.

Mr. NEWLANDS. The fact, then, of that raise in the rate of discount showed that England felt it had no surplus of gold and could not spare its gold?

Mr. ECKELS. No; I do not think it necessarily meant that. I think

it showed that England did not want too much to leave at once, and that it would aid toward having more of these things paid by sixty or ninety days' bills of exchange instead of being paid direct by the gold, during which sixty or ninety days things could adjust themselves, and possibly within that time the large amount of agricultural produce which would be imported to England would be paid by a corresponding demand for the products of the English manufacturers and for other things, so that in the length of the life of a bill of exchange the balance to be settled in gold would be reduced to a very small amount.

Mr. NEWLANDS. Have you observed that when there is an export of gold from this country the price of securities in the New York market goes down, as a rule?

Mr. ECKELS. Yes.

Mr. NEWLANDS. And have you observed that when gold is imported to this country that the price of securities in the New York market generally rises?

Mr. ECKELS. Yes; for this reason——

Mr. NEWLANDS. Is there not, then, some relation between the quantity of gold in the country and the prices, not only of our securities, but of our products?

Mr. ECKELS. No; not necessarily. The explanation of that is this: That with the present financial system maintained throughout the United States the General Government is a partner in everybody's business.

The CHAIRMAN. Isn't it a fact that you have seen bonds and stocks in New York being depreciated in price when gold was being exported, without its having any visible effect upon the price of other products?

Mr. ECKELS. Yes.

The CHAIRMAN. Isn't it much more frequent that a money panic occurs without it in any way affecting the industrial conditions?

Mr. ECKELS. I think so. The falling off of the prices of stock is no indication at all of the falling off of the prices of other things, because the stock market is the one thing which is most affected by manipulation, by rumors, and by things which in no wise affect the price of products of a different character.

The CHAIRMAN. So the increasing or the diminishing of the price of bonds has no connection with the question whether the masses of the people are prosperous or otherwise?

Mr. ECKELS. No, sir; and it does not indicate the value of those stocks or bonds particularly.

Mr. NEWLANDS. Would it not be a fair statement, Mr. Eckels, to say that the effect of the export of gold is first felt upon securities, because they are the properties upon which quicker realizations can be made than others, and that is but a part of the general effect on the property and products of the country?

Mr. ECKELS. Only as the flurry in securities on the stock market tends to create a condition of mind upon the part of the public which curtails credit in every branch of business.

Mr. NEWLANDS. I was referring to England. I said that an export of gold from England would have a tendency to lower the prices of securities there, and imports of gold, I presume, would have a corresponding tendency to increase the prices of securities there. You have observed that?

Mr. ECKELS. That is undoubtedly so. I think that temporarily any sudden increase in the amount of money you have affects things. Any sudden decrease in the amount of money you have affects things.

Mr. NEWLANDS. That is caused, as I understand it, by this, that the

export of gold gives us a curtailment of credit in the exporting country, does it not?

Mr. ECKELS. It would depend upon the conditions which surrounded that export. For instance, I imagine that when the Baring failure occurred any large export of gold from England at that time would have created a great curtailment of credit, not because of gold itself going out—because I don't think England could lose by its going out and something coming in in exchange for it—but because the public mind had been so affected by so great a failure that the solvency of perfectly solvent institutions was doubted. So that the effect of either an exportation or importation of gold upon the country can only be estimated by the business conditions prevailing in the country at the time the one or the other thing occurs.

Mr. NEWLANDS. The effect will be accentuated if the public mind is in a state of apprehension?

Mr. ECKELS. Yes; and doubly accentuated if public credit was involved in addition to that of individual credit.

Mr. NEWLANDS. I see. There is, then, a relation between the volume of redemption money and the volume of credit in a country; is there not? I do not ask what relation.

Mr. ECKELS. Yes; as it affects the mind of the public, going toward the ability of the redemption of that money, and undoubtedly during a time of public apprehension you would be compelled to increase your volume of current redemption money. During that time everybody who has any instrument of credit, whether it be one issued by the Federal Government or by a bank, would desire to put that thing in another form—to put it into the form of actual property or actual payments, instead of simply a promise to pay. And there might be a time when 5 or 10 per cent or 15 per cent of gold would not be sufficient for current redemption, if the public mind was in a disturbed condition. On the other hand, there would at times be a condition where 1 per cent would not be required.

Mr. NEWLANDS. How do you account for it if France has a surplus of gold, that she holds on so tenaciously to the $850,000,000 of gold she has now?

Mr. ECKELS. For the reason that there is a continual apprehension in France, in Germany, and all continental European countries, that war disturbance may arise and the necessity of having immediately within their power the means of sustaining themselves in a war. A further reason is that the French people do not use banks of deposit, and therefore there is necessity of having a large amount of metal money to use in the daily transactions of life. They estimate their amount just as a grocer estimates the amount of stock he has to carry in his store, or any other man engaged in business—by experience with the demands of people for the particular article which he has to sell. They estimate that amount to be necessary in France because the habit of the French people in the matter of the transfers of property is to make transfers by paying the actual money itself instead of by giving redeemable promises to pay, or checks or bills of exchange.

The CHAIRMAN. I would like to ask two or three questions right there, if there is no objection.

EXPERIENTIA DOCET.

You spoke of the quantity of gold in England. Is it a fact, in the continuation of your idea, that these things can only be known by experience—that is the only way to know how much gold is necessary—isn't the experience of the English system the only thing that the

English can rely upon; isn't it equally true of the Scotch; and that the amount of specie they have has been proven to be amply sufficient; isn't that true of the Irish, although that is a part of Great Britain, and isn't it also true of the Canadians?

Mr. ECKELS. All these systems are based upon the experience that these immediate people have of themselves had, added to by the general principles of monetary science underlying all banking and monetary systems.

The CHAIRMAN. But the modification that the general principles of monetary science have exerted on statesmen as to what should be made into law is comparatively slight, is it not?

Mr. ECKELS. I think in some instances at least it has been.

The CHAIRMAN. You are familiar with the Suffolk system of New England, are you not?

Mr. ECKELS. Yes; somewhat.

The CHAIRMAN. Is it not reasonable to suppose that what was true of New England for thirty years as to the proportion of currency in the various things that could demand currency in redemption, would be satisfactory and safe?

Mr. ECKELS. Modified to change the present method of doing business.

The CHAIRMAN. Then when you come to the last analysis of these theoretical propositions they would and ought to have but slight influence on legislation as compared with the actual facts developed by looking into what was actually done and to the conditions now in the countries named or in our own country and what were the facts in different systems in previous periods?

Mr. ECKELS. Except that the theoretical questions tend to bring out the actual facts, and I think that somebody has said where there is a conflict between facts and theories so much the worse for the theories.

Mr. CALDERHEAD. When you say that France clings tenaciously to a large amount of gold, do you mean the people of France?

Mr. NEWLANDS. The French people generally.

Mr. CALDERHEAD. What has legislation to do with that?

Mr. ECKELS. You know that virtually every French peasant is his own banker. He does not use banks of deposit; he does not trust banks; he keeps his metal money and does not exchange it for notes with the banks. It is in the cities where that thing prevails, and consequently there is a necessity for a larger store of the metal medium of exchange.

Mr. NEWLANDS. Then, taking into consideration the existing conditions of France, and the lack of banking facilities, etc., you do not regard the French people as unwise in holding on to this $850,000,000 of gold, do you?

Mr. ECKELS. I do not regard them as unwise in holding on to the amount which the necessities of business require.

Mr. NEWLANDS. Experience would tell them as to what the necessities of business require.

Mr. ECKELS. I would take all their experience; and I find in one instance England was short of gold, but then, when they wanted it they got it immediately from the Bank of France. You can not say you must have always the same amount of gold in existence in the country all the time.

Mr. NEWLANDS. Do you remember how much they got from the Bank of France at that time?

Mr. ECKELS. £15,000,000, I think.

The CHAIRMAN. They got the right to £15,000,000, but actually got less than £6,000,000.

Mr. NEWLANDS. I am simply finding out with regard to the country that has a surplus of gold, and in regard to these countries that have a sufficiency of gold, and I am inquiring now whether France has too much gold. I understand Mr. Eckels practically admits that the experience of the country is a safe guide, with reference to its condition of banking and business, that it is not unwise to keep on hand $850,000,000 of gold—that is, he will trust to experience as to the wisdom of it.

NUMBER OF BANK DEPOSITORS IN THIS COUNTRY.

Mr. ECKELS. But coupled with the statement that we have always been able to furnish gold when demand is made for it. Two years since, I made an investigation at the Chairman's request of the number of bank depositors in this country—State, savings, private, national, and all. There were over 9,000,000 of them. That fact was so potent as indicating the extent to which credit instruments were used in this country that the Banker's Magazine, of London, called attention to it as indicating a condition of affairs here that must necessarily give our people a tremendous advantage in time over other commercial people with whom we were dealing, as lessening the amount of actual money which they must use and otherwise in the methods of transferring property, because 9,000,000 people depositing in banks means an enormous use of checks and drafts and a corresponding reduction of the use of actual money passing from hand to hand.

The CHAIRMAN. Paper money or coin money?

Mr. ECKELS. Yes; either one.

Mr. NEWLANDS. Do you think credit can be used too extensively in business?

Mr. ECKELS. Yes; it can. Overtrading can impede business.

Mr. NEWLANDS. Can you have a very large increase in the credits of the country or the world without correspondingly increasing the base in the shape of primary money of redemption?

Mr. ECKELS. I think we can have a very large increase of credits safely if we have an increase in the amount of property in the country. I do not think it depends on the amount of what you term primary money, but it depends upon what has been transferred—the increase in the value or the amount of that which is being transferred by your credit instruments.

Mr. CALDERHEAD. I would like to inquire whether you think a very large increase in the deposits of a country would make an increase of gold necessary by that country.

Mr. ECKELS. Not necessarily; no.

Mr. CALDERHEAD. It would not have anything to do with it, would it?

Mr. ECKELS. No. The values of those deposits depend largely on the things in which those deposits are invested, because as soon as a deposit is brought into a bank it is expected it will be loaned out and take the shape of some property which is of value. The expectation would be that the bank every day would loan out the amount it took in. The measure of the safe extension of credit is the measure of the value of the property.

Mr. NEWLANDS. Do I understand you, then, to point to England, France, and Germany as the countries which have a surplus of gold which can be drawn upon in order to enable the United States to establish a proper monetary system, and also these other countries which have a large amount of uncovered paper outstanding; you think those are the three countries which can be drawn upon for gold?

Mr. ECKELS. They can be drawn upon if we needed any more, and undoubtedly if we wanted more than they could supply us with we would buy it directly from the miner, not only here, but in Africa or anywhere else, and have it coined.

The CHAIRMAN. Isn't it a fact whatever coin money exists must necessarily be used, and the fact of the existence of a large body of coin in the country is not a proof that it is necessary to have that to do the large business of the country?

Mr. ECKELS. Undoubtedly, and the strongest criticism which has been presented against the Bank of England is that it unnecessarily keeps locked up such a tremendous amount of gold.

VISIBLE GOLD.

The CHAIRMAN. Isn't it a fact she puts down her rates of discount to 1 and 2 and 2½ per cent to dispense the gold when she finds she has too much and when she finds it is being too rapidly withdrawn she puts up her rate to keep the gold? Isn't it a fact that all the visible commercial gold in England is now about $175,000,000, but ordinarily it is $120,000,000 to $135,000,000?

Mr. ECKELS. Yes; as to the rates of discounts and the purpose of them. I do not know exactly the amount of visible gold, but it is comparatively a very small amount at present.

The CHAIRMAN. Is it not a fact furthermore, that the gold in the pockets of the people is held on to tighter in case of excitement or panic and they do not pay it out then?

Mr. ECKELS. That is undoubtedly true.

Mr. NEWLANDS. Is it not a fact that the exports of gold from various countries and the imports to them are watched very carefully by all people interested in business, and particularly in financial business?

Mr. ECKELS. I think that is so, but they are watched with more anxiety by this people than any other people on the face of the earth, because ours is the one people that has its Government in partnership with every individual who is carrying on business.

BISMARCK ON THE SUPPLY OF GOLD.

Mr. NEWLANDS. Now, I ask whether the statement attributed to Bismarck is not substantially true, that this gold blanket is not sufficiently large to cover all the nations of the world, and when one nation tugs at it it exposes the naked members of the other nation?

Mr. ECKELS. No; and I think Bismarck's opinion, among men who are informed on this subject, has less weight in financial affairs than the opinion of any other statesman who ever rose to his prominence in public life.

Mr. NEWLANDS. With reference to the production of gold, you rely upon that to supply the wants of these countries that have these large amounts of uncovered paper money?

Mr. ECKELS. As a contributing element?

Mr. NEWLANDS. Yes; as a contributing element. At what figure do you put the production of gold during the past year?

Mr. ECKELS. I do not know; I suppose $225,000,000.

Mr. NEWLANDS. That is the largest production known in the history of the world, is it not?

Mr. ECKELS. Yes.

Mr. NEWLANDS. The world is searching for gold now very energetically.

Mr. ECKELS. Yes.

Mr. NEWLANDS. Doesn't that indicate a great demand for gold?

GOLD A VALUABLE PROPERTY TO HAVE.

Mr. ECKELS. Yes; undoubtedly; or it indicates at least that the people think it is going to be a valuable property to have.

Mr. NEWLANDS. Now, as to that annual production of gold, have you any information as to how much of it is really absorbed in the monetary systems of the world and how much goes to dentistry and the other arts?

Mr. ECKELS. I imagine all goes into the monetary systems of the world that can possibly be used to the best advantage by the monetary systems of the world, and that which can be best used in the arts, and thereby bring more profit to the owner of the gold, goes into the arts. It is necessary, of course, to buy the gold to coin into money.

Mr. NEWLANDS. What proportion goes into money?

Mr. ECKELS. I do not know exactly.

Mr. NEWLANDS. A large proportion goes temporarily into money and finally into the arts?

Mr. ECKELS. It changes. It stays in money as long as it can best be used for money, and when it is of more value in the arts it goes to the melting pot.

Mr. NEWLANDS. Do you think more than one-half of it?

Mr. ECKELS. I would not undertake to give the exact proportion.

The CHAIRMAN. That is a matter of public record.

Mr. ECKELS. I have not the statistics here; but I have always observed this, that there has never been a time in the history of this people, or any other people, that there was not a sufficient amount of gold obtainable if it was needed. Of course, sometimes more must be paid for it than at other times, just as you have to pay more for commodities at certain times than at other times; but it can always be bought by paying enough for it.

Mr. NEWLANDS. Do you know what statisticians have estimated as to the percentage of gold produced that goes into the arts—dentistry, etc.?

GOLD IN THE ARTS.

Mr. ECKELS. No; I do not know what their estimate is, and I do not care particularly, because I do not think it affects the question. My theory is that there always goes into money that which can be best used for money and there always goes into the arts that which can be best used in the arts.

Mr. JOHNSON. You would not be alarmed, then, to see a large amount of it being used in the arts?

Mr. ECKELS. I would not care if 95 per cent of it was used. It would indicate the condition of business was such that it could more profitably be used by putting that proportion into the arts, and that it was therefore not needed for money.

Mr. NEWLANDS. Isn't it true that the more valuable gold becomes the greater demand there is for it in the arts and on account of the very fact that the whole world is seeking for gold it makes it desirable in the arts?

Mr. ECKELS. I think that is so. I think some eminent authorities have said, the higher becomes the price of gold the better for the people, for the reason that it decreases the inconvenience of bringing about exchanges of property. The objection to any money which

increases the bulk of the thing which is to do a certain required work is that it thereby lessens the profits to the person who is handling that money.

APPRECIATION OF GOLD.

Mr. NEWLANDS. You believe, therefore, that it is a good thing that money should increase in value?

Mr. ECKELS. I do not think there is any harm in it at all.

Mr. NEWLANDS. You think that if gold appreciates it is a good thing?

Mr. ECKELS. I do not think it would in any wise work a single loss to anybody.

Mr. NEWLANDS. Do you think that gold has appreciated?

Mr. ECKELS. No.

Mr. NEWLANDS. You think it is a stable measure of value?

Mr. ECKELS. I think it is a stable measure of value.

The CHAIRMAN. Is it not a fact, Mr. Comptroller, that when you speak of gold being more valuable in the arts, or going into the arts rather than into money, it is not a matter of increasing its price, but that the bankers and the money users having reached the amount necessary in the reserve to be held, the balance goes into the arts, so that the bankers and the people are not at the expense of holding it in a money form?

Mr. ECKELS. More valuable in that form.

The CHAIRMAN. More valuable because it is not necessary to use a reserve? Is it not a fact that, except in England and California, pretty generally, the use of gold has gone out as currency money and that paper and silver are being used as currency to the exclusion of gold?

Mr. ECKELS. Yes; and people do not want to carry silver because they prefer to carry paper. All these things have to be gauged by the habits of the people, and by their continual desire to have this thing or that which least inconveniences them and is of the least expense and best answers the immediate purpose. It would be about as reasonable to desire to go back to old things in the methods of transportation, or in anything else as it would to go back to something which simply increases the inconvenience of doing a thing which you wanted accomplished in the best way.

Mr. NEWLANDS. I understand you to say that you regard gold as a suitable measure of value, and you regard it as a good thing if it appreciated in value?

Mr. ECKELS. I said that I do not think any harm would follow from it.

The CHAIRMAN. Are there any other members who desire to ask any questions in the line of the questions that have been asked by Mr. Newlands?

BIMETALLISM.

Mr. JOHNSON (to Mr. Newlands). Why don't you put the direct question to him?

Mr. NEWLANDS. What was the direct question?

Mr. JOHNSON. Why, the question you have been driving at all through your long examination—whether or not bimetallism is necessary in order to get a broad enough basis for the issue of paper money.

Mr. ECKELS. If that is the purpose of Mr. Newlands's general tenor of questions, it will take but a few minutes to say a word on bimetallism. If I may be permitted, I would like to round out some things I have said on this subject.

I have touched upon the question of the use of metallic moneys, and, whether or not I am correct, I have reason to think that Mr. Newlands is a believer in bimetallism.

Mr. JOHNSON. There is a suspicion of that kind in the committee room.

Mr. ECKELS. From some of the inquiries made on Thursday and my replies I am sure that he will draw the inference that I am not a believer in bimetallism, that I believe in the single gold standard as being the thing which is most essential to the proper conduct of the business of a commercial nation having transactions with other commercial nations desiring that which will best meet the needs of commerce.

BIMETALLISM AN IMPOSSIBILITY.

I do not believe that bimetallism would add in the least, if it were a possible thing, to facilitating commercial exchanges or aid in the transfer of property. As a practicable thing it is an impossibility, because there never yet has been seen in the history of commercial nations, or in the history of any people that have undertaken to maintain monetary systems in practical operation, simultaneously, the things which are essential to the maintenance of a bimetallic standard. Those things are, if it is possible in the maintenance of a national bimetallic standard and a national bimetallic currency, a ratio to be fixed upon by law as between two metals, which ratio ought to be as nearly as possible the commercial ratio as the lawmaking powers are able to ascertain, if it is international bimetallism then the ratio agreed upon between the agreeing nations.

There must be in addition, made of that silver and that gold, money of absolute redemption, every dollar coined being of the value of every other dollar entering into circulation. Every dollar must maintain itself independently, so that one dollar can be exchanged for the other without any loss, or a man transfer property and receive payment therefore either in silver or gold without any loss.

Again, there must be unlimited legal-tender properties attaching to each and every dollar of the dollars coined out of the gold and silver upon the ratio agreed, and there must be full, unlimited free coinage of both metals. When all these elements are provided for, concurrent circulation of the dollars so coined out of the two metals must always be present. If at any time any one of these elements which I have enumerated is wanting, a country has not a bimetallic standard and a bimetallic circulation, but it has either an alternating standard and circulation or a single standard with a single coin in circulation.

I am confident that it can not be pointed out that for a single day in the history of the United States, under the operation of any coinage act, there have ever been these four elements essential to the maintenance of a bimetallic standard in combined action. We have never had a time in our history where the two metals have circulated independent of each other, each metal maintaining its full value independent of the other metal. We have never had independent concurrent circulation and without such concurrent circulation and such absolute independence of the sustaining power of one metal under the other we have not two moneys of equal redemptive powers. If we have to maintain our silver with a gold prop under it, then silver is not a money of redemption, and if we have to maintain our gold with the silver under it gold is not a money of redemption. Unless a man can exchange his property and his dollars without loss, whether or not he receives the silver or the gold, he is not given a money which in and of itself is the equal in value of

the other form of money which enters into the maintenance of the bimetallic circulation of the country.

Thus far in this country we have had only the single standard and a single self-sustaining circulation. At one time a silver standard and a silver circulation, at another a gold standard and a gold circulation, but never a bimetallic standard and a bimetallic circulation. Such a thing I believe to be an absolute impossibility.

Mr. NEWLANDS. You have observed throughout that I have hardly used the word "silver" in this inquiry. My whole inquiry has been directed to finding out whether or not there is sufficient gold in the world for redemption purposes and whether under the banking system that is proposed we can procure enough gold in this country for redemption purposes. My inquiry, therefore, has been directed to ascertaining the stocks of gold in the different countries of the world, and the possible requirements of countries that are now struggling to get upon the gold standard and to make gold redemption.

The CHAIRMAN. Mr. Comptroller, in 1893 I received from your Department, or copied from your report, a statement that it cost \$137.48 per \$100,000 for the redemption of currency. In the testimony given by the Secretary of the Treasury in 1893, on \$75,000 he reports that the annual cost for the redemption was \$37.50, express charges \$2.50—I suppose those are to be included—making \$40.

Mr. ECKELS. Yes.

The CHAIRMAN. That would make the entire cost on \$100,000 \$53.33, or one-third more than Mr. Carlisle figures on \$75,000. In your report I think you say it cost \$45 and some odd cents per \$100,000, didn't you?

Mr. ECKELS. I don't remember the exact figures. I will look that up.

The CHAIRMAN. Now, the number of redemptions under the Suffolk system averaged in ordinary years about five. As shown in the paper sent here by Treasurer D. N. Morgan, December 1, 1896, it cost \$1.125 per \$1,000 to make the redemptions, and if it is averaged to be redeemed five times—that is to say, each \$1,000—the redemptions will be a total cost of \$6.62½, and that would be \$562.50 instead of \$137.59 on \$100,000 of bank notes. The point is whether the \$137.50 covers merely the actual redemptions of each \$100,000 each time, or whether that would cover the whole of the money in circulation in its actual redemption, if our paper money was all bank currency and frequently redeemed?

The Treasurer's figures are as follows:

TREASURY DEPARTMENT, OFFICE OF THE TREASURER,
Washington, D. C., December 1, 1896.

The charges for transportation and the costs for assorting the notes of national banks redeemed during the fiscal year ending June 30, 1896, under the act approved June 20, 1874 (18 Statutes, 123), were as follows:

Charges for transportation		\$32,518.93
Costs for assorting:		
Salaries	\$77,766.54	
Printing, binding, and stationery	2,825.97	
Contingent expenses	974.19	
		81,566.70
Total		114,085.63

These expenses have been assessed upon the several national banks in proportion to the circulation redeemed. The aggregate amount redeemed and assorted during the fiscal year was \$101,409,451.50, giving \$1.12½ as the average rate for each \$1,000.

On November 1, 1894, he says:

The contract rates for the transportation of all kinds of paper currency to or from Washington are—

Between Washington and points in the territory of the United States Express Company and reached by it, 20 cents per $1,000 or fractional part thereof over $500; sums of $500 or fractional part thereof, 10 cents.

Between Washington and points in the territory of another express company, excepting points in Texas, Arkansas, Colorado, Kansas, Nebraska, Montana, North Dakota, South Dakota, Wyoming, and the Indian and Oklahoma Territories, 60 cents per $1,000 or fractional part thereof over $500; sums of $500 or fractional part thereof, 40 cents.

Between Washington and points in Colorado, Kansas, and Nebraska, 75 cents per $1,000 or fractional part thereof over $500; sums of $500 or fractional part thereof, 50 cents.

Between Washington and points in Texas, Arkansas, Montana, North Dakota, South Dakota, Wyoming, and the Indian and Oklahoma Territories, $1 per $1,000 or fractional part thereof over $500; sums of $500 or fractional part thereof, 65 cents.

Express charges are paid by the Government, at contract rates, on standard silver dollars sent by the Treasurer or Assistant Treasurer in sums or multiples of $500, on fractional silver coin in sums of $200 or more, and on minor coin sent from the mint at Philadelphia in sums or multiples of $20.

Thereupon, at 4 p. m. the committee adjourned.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., Tuesday, February 2, 1897.

The committee met at 10.30 a. m.

Members present: The chairman (Mr. Walker) and Messrs. Brosius, Van Voorhis, McCleary, Fowler, Lefever, Spalding, Calderhead, Hill, Cox, Stallings, Black, Newlands, and Hendrick.

Hon. James H. Eckels, Comptroller of the Currency, appeared before the committee and continued his statement begun on January 28, 1897.

STATEMENT OF HON. JAMES H. ECKELS, COMPTROLLER OF THE CURRENCY—Continued.

The CHAIRMAN. Mr. Comptroller, I asked you some questions yesterday, the answers to which we want in the record in order to complete that matter discussed.

Mr. ECKELS. The reporter, by referring to his notes of yesterday's hearing, will find that you asked me a number of questions relative to the cost of redemption of national-banking notes in 1893, stating——

The CHAIRMAN. Some are for 1893, and some are for 1894; and the figures I gave you are from the very last report of last year.

COST OF BANK-NOTE REDEMPTION.

Mr. ECKELS. Yes; I asked the chief of the redemption division of the Comptroller's office to give me a statement of the cost of the redemption of the national-bank notes for the year ending June 30, 1893, as requested by Mr. Walker, and he informed me that the cost was $1.3551 per $1,000, or $135.51 per $100,000 actually redeemed and assessable. He further informed me that the estimated cost of maintaining $100,000 of the circulating notes issued to a bank is estimated to be about one-twentieth of 1 per cent, or about $50 per year.

The CHAIRMAN. That is, for each redemption?

Mr. ECKELS. Yes; for the year—about $50 per year.

Mr. FOWLER. I do not understand that that clears the first proposition.

Mr. ECKELS. The cost for redemption of national-bank notes for the year ending June 30, 1893, was $1.35 for each $1,000 actually redeemed.

The CHAIRMAN. Fifty dollars per year, with the notes actually redeemed, as it has actually taken place under our present system of redeeming national-banking circulation.

Mr. ECKELS. The $135.51 per $100,000 of notes redeemed in the year 1893 was for that year only. Last year—1896—the cost was reduced to $1.12½ per $1,000, or $112.50 per $100,000, and the total amount redeemed was about one-half of the outstanding national-bank circulation, or $108,260,978.

The CHAIRMAN. That is to say, the total cost of the redemption for the year, divided by the total sum of currency that the banks had out that year, amounts to the $1.3551 per thousand, or whatever it is.

Mr. ECKELS. Yes.

The CHAIRMAN. Then, of course, if this currency should average to be redeemed twice or thrice or five times you would have that many more times the estimate given?

Mr. ECKELS. But the estimate is, that for a bank having $90,000 in circulating notes the amount redeemed per year is about 50 per cent of the entire circulation.

The CHAIRMAN. Redeemed once.

Mr. ECKELS. Yes; and the greater the amount actually redeemed the less cost per thousand for redemption.

The CHAIRMAN. So that if the redemption was done five times on each note it would not be five times the amount as shown there?

Mr. ECKELS. No.

The CHAIRMAN. Because the packages that came in would be larger?

Mr. ECKELS. Yes; and the cost of handling less, so that the cost per thousand lessens with the number of times of redemption. You had, Mr. Chairman, a statement to the effect that the number of redemptions under the Suffolk system averaged in ordinary years, about five; and, as shown in the paper sent here by Treasurer Morgan, dated December 31, 1896, it cost $1.12½ per thousand to make redemptions.

The CHAIRMAN. And if notes are averaged to be redeemed five times——

Mr. ECKELS (continuing). That is to say, each $1,000 of redemption will be a total cost of $5.62½, and that would be $562.50 instead of $137.50 on $100,000 of bank notes. The point is, whether $137.50 covers merely the actual redemption of the $100,000 each time or whether that would cover the whole of the money in circulation in its actual redemption, if our paper money were all bank currency and frequently redeemed. To that statement of yours the chief of the redemption division of the Comptroller's office has added this note.

The above calculation of $5.625 is for $5,000 redeemed and at the same rate. It should be $112.50 per $100,000, instead of $562.50.

The CHAIRMAN. He did not know what he was talking about and I did.

Mr. ECKELS. He seemed to have the opinion that he did, and that you did not.

The CHAIRMAN. The facts are that the records show that the total circulating notes in New England was averaged to be redeemed about five times each year. What I wanted to get at was, if the total currency of the country was redeemed five times each year whether it would not cost five times what a single redemption would cost. The larger the volume you redeem the less is the cost per $1,000. Is it or is it not a fact, Mr. Comptroller, that, other things being equal, the larger the territory covered by any system of coin redemption, the less percentage of coin to the total liabilities of a bank is needed, because of

the varied industries, and the varied times at which crops are gathered, so that each business measurably balances the other? Now, what is your judgment on that?

Mr. ECKELS. You mean over the whole country or individual localities?

The CHAIRMAN. Over the whole country. I will read the question again.

The Chairman repeated the question.

Mr. ECKELS. I think that is so, if the same perfection exists in the banking system in one part of the territory as in the other.

The CHAIRMAN. That is assumed. Secondly, is it not a fact that the larger and more varied the interests included in any banking system, the less percentage of coin, to the total of volume of liabilities, is needed?

Mr. ECKELS. That is unquestionably so, because the more interests transacting their business through the bank the less occasion there is for the handling of coin in the transfer of property and the more there is of transfering of property through instruments of credit issued through the banks.

The CHAIRMAN. In any banking system where the currency is put in circulation, is it not a fact that the depositors make a larger draft on the coin held for redemption than the class of people that use the currency that is issued by the banks?

Mr. ECKELS. I stated yesterday that the note holder was less liable to come to a bank for the redemption of his note than the depositor, for the reason that people do not wish to carry with them a metallic currency except when there is some absolute necessity for so doing. Therefore the bank-note currency redemptions are less frequent than the redemption of what might be termed deposit currency.

The CHAIRMAN. You are talking now of final redemption in coin?

Mr. ECKELS. Yes, the deposit money of the bank; and consequently there is less need for a large reserve against note issues than there is for a reserve against bank deposits.

The CHAIRMAN. The theory upon which our banking law and all sound banking proceeds is that the reserve both of coin and of bank balances should be adjusted to the deposits and not to the currency. You think that is a sound system?

Mr. ECKELS. There is no reserve maintained against note issues, for the reason that they are all provided for by the deposits of bonds. At the outset the national-bank act did provide for holding a reserve against note issues.

POPULAR IDEA OF A BANK'S SOLVENCY.

The CHAIRMAN. You have introduced an issue there. The bonds do not cut any figure and have no relation to the currency excepting in its final redemption upon the solvency of the bank. Our present system goes upon the theory that the reserves held ought to be adjusted to the individual deposits and also the coin held, instead of to the currency issued.

Mr. ECKELS. They cut this figure, that nobody ever thinks about a bank note, because he knows that as long as the credit of the Government is such that its bonds are redeemed, his note is good.

The CHAIRMAN. But in the popular mind the thing that tests a bank's ability to redeem is the currency it issues and not the deposits it accepts. Now, as a matter of fact, is it not the depositors, and not the currency holders, that demand coin redemption, as you have previously testified; and isn't our system adjusted upon that principle?

Mr. Eckels. I think in the popular mind with us, Mr. Walker, that which tests the solvency of a bank is its ability to redeem its indebtedness to its depositors—its ability to meet the demands of the depositors. Under other circumstances technically a true test of the solvency of a note-issuing bank is its ability to redeem its notes.

The Chairman. Is it not a fact that in a business community the thing that is believed to test the solvency of a bank, with those familiar with banks and banking, are the deposits and the demand that the depositors make upon a bank; but in the popular mind, say, the average taxpayer, the thing that rests in his mind, as a matter of risk, is the currency that the banks issue? Isn't there a distinction?

Mr. Eckels. I do not think in the United States or any country where there is an absolute deposit of securities that there is any thought at all devoted to the redemption of the note issues.

The Chairman. By the depositors?

Mr. Eckels. By the noteholders. They look to the Government. But where, as I say, the banks maintain the responsibility themselves of redemption of their note issues the popular mind would undoubtedly be constantly on the lookout as to whether or not the banks were able to redeem the notes issued.

The Chairman. Is it not a fact that the banks are required to put up the 5 per cent redemption fund, and that the banks themselves, through that fund, currently redeem their notes, and then the Government sells the bonds to redeem the notes of insolvent banks?

Mr. Eckels. That is the fact.

The Chairman. So that the fact that the Government finally redeems the note does not cut any figure with the bank, because that is a final redemption, and the 5 per cent redemption fund is held and used for the current redemption.

Mr. Eckels. I think, Mr. Walker, in the popular mind here there is not a single thought devoted to the redemption of bank notes, either current or permanent, by the man possessing them. He is aware of the fact that the Government attends to that part of it, because it is provided in the law that if the redemption fund is not maintained a bank without being notified can be closed up and the Government take possession and redeem the notes, recouping itself from the bonds deposited with the Treasurer.

The Chairman. Isn't it true that the larger the volume of business done by a larger number of individuals in the same territory under the same system, the less percentage of redemption coin is needed?

Mr. Eckels. Yes.

Mr. Hill. I understood you to say, Mr. Eckels, in response to Mr. Walker's question, that the larger the country the less coin would be required for redemption purposes.

The Chairman. The less percentage of coin.

Mr. Hill. Yes; the less percentage.

Mr. Eckels. The same character of banking facilities——

Mr. Hill. I want to ask you, if the country is divided into redemption districts, where will be the greatest demand for redemptions, from within the redemption district in which the bank is located or without it?

Mr. Eckels. I think without it.

Mr. Hill. Then the more extensive the country is the greater the quantity of coin required, rather than a less quantity?

Mr. Eckels. I don't think so, with the improvements of banking facilities equally distributed.

Mr. Hill. Why would that affect the case at all? If the redemp-

tions that are to come to banks, that are called for by the banks, are from without the redemption district, why is it not true that the greater the territory without the redemption district, the larger will be the calls?

The CHAIRMAN. The point is, it is impossible to have redemption territorial districts where the system covers a given territory. You can not make redemption districts. Banks must be allowed to choose among the large commercial cities the city in which they will redeem their notes.

Mr. HILL. I don't think that would change the fact at all. It would seem to me the exact reverse is true.

REDEMPTION UNDER THE SUFFOLK SYSTEM.

Mr. ECKELS. I don't think, Mr. Hill, that under the Suffolk system, as the number of banks increased and the territory was enlarged, there was a corresponding increase in the amount of coin used for redemption.

Mr. BROSIUS. Mr. Comptroller, is it not a fact that the need for bank currency in any country, other things being equal, diminishes in exact ratio to the extent of the deposits of the banks of that country?

CHECKS CREATE A CURRENCY.

Mr. ECKELS. Yes; because people, if they become bank depositors, use checks, and they create a bank-deposit currency.

Mr. BROSIUS. They create a currency themselves.

Mr. ECKELS. Yes; the only difference being that the bank-deposit currency is not a currency which passes rapidly from hand to hand, as a bank-note currency does. For that reason, it does not in all instances take the place of a bank-note currency.

Mr. BROSIUS. I did not mean to imply that it took the place of it in the sense of superseding it. I only meant that where there is a habit of depositing in banks, so that all the available funds in a community go out of the pockets of the people into the general use of the public, that less and less amounts of bank-note currency are needed in such cases.

Mr. ECKELS. Yes; that is so.

Mr. BROSIUS (continuing). Because all the funds of the community are utilized for public uses. Now, let me ask another question. Is it not a fact that with the progress of the evolution of banking agencies and facilities the habit of depositing the current funds of communities in banks grows, and that therefore the deposits in the banks of the country increase from year to year?

Mr. ECKELS. That is undoubtedly true. I have several times taken occasion to say that with the increase of facilities of exchange through banks of deposit and discount you diminish the use of bank-note currency, and also of gold currency or silver. After all, bank notes and gold and silver play so very small a part in the innumerable transactions in the business world that they can not be considered to compare with the other methods which are used for carrying on business.

Mr. BROSIUS. That is the philosophy of it.

Mr. ECKELS. That is the fact of it.

DEMAND FOR ADDITIONAL NOTE CURRENCY LOCATED.

Mr. BROSIUS. Does it not find additional illustration in the fact that in those sections of the Union in which there exists the greatest demand

for additional bank-note currency there is the least amount of deposits in the banks?

Mr. ECKELS. Yes.

Mr. BROSIUS. In the cities of the North and in the North generally and the Middle States, where capital abounds and they have the habit of depositing, they are not demanding additional bank-note currency, are they?

Mr. ECKELS. No.

Mr. BROSIUS. In the South and West, where they do not deposit so generally, and where there is a dearth of deposits in the banks to be used for public purposes, they are demanding additional bank-note currency?

Mr. ECKELS. Yes.

Mr. FOWLER. Is it a proof that they have no wealth?

Mr. BROSIUS. No.

Mr. ECKELS. The desire for an inflation of the currency is not confined to any single locality or any single class of people. There has always been everywhere a desire to have a large volume of currency, but the needs of the South and the West for better note-issuing functions on the part of the banks are greater than in the East and the Middle West and the New England States.

The CHAIRMAN. Is it not true that where the banks issue currency freely where they are located the currency carried in the pockets of the people there actually increases, while being a less percentage to the total banking capital—that is to say, that the percentage of currency to the deposits and to the banking capital may be less, while the total currency in circulation may be more, because loans are made in currency?

Mr. ECKELS. Yes.

The CHAIRMAN. Now, Mr. Eckels, preparatory to taking up the bill H. R. 171, if you will turn to page 98 of your report——

EFFECT OF REDEEMING IN GOLD ONLY.

Mr. COX. Before you take up the regular bill I want to ask Mr. Eckels one question. Mr. Eckels, I want to go back and call attention to a question we were discussing yesterday and try to make the question understood. When you were speaking of the redemption by the banks and taking it off of the Government, and that they should redeem in gold, a question drawn out by my friend there, to a certain extent, was the thought that if the gold was needed in this country the banks could get it, and if it was needed in other places and we had a surplus it would flow to them?

Mr. ECKELS. Yes.

Mr. COX. Now, suppose the banks had to redeem in gold, and gold only, and there was at a time a demand for a considerable sum of gold out of this country. By your answer it would naturally take its course to fill up what you might call a vacuum there. Now, would not there be a danger that gold might go to a slight premium, or a considerable premium, and if it did go to a premium, even a small one, would not that be an invitation and would not it have the influence to rush the depositors into the banks for the redemption in gold, so that they would get the profit of that premium?

Mr. ECKELS. Of course there is always the liability of having a condition of the public mind that may upset the best system, but this thing is certain. that wherever the responsibility has been placed on

banks of looking after these matters, unhampered by unnecessary Government restriction, they have been able to do it. As they have all the machinery, they undoubtedly would protect themselves.

Mr. Cox. But you admit that there is some danger along that line?

DISTURBANCES POSSIBLE UNDER THE BEST SYSTEM.

Mr. Eckels. Under the very best system possible there is apt to be a condition of the public mind which for the time may create disturbances.

Mr. Brosius. Could gold go to a premium under any circumstances as long as banks continue redeeming in gold?

Mr. Eckels. No; the banks themselves might have to pay it.

Mr. Brosius. It does not make any difference what the banks have to pay for it, because any man taking his note to the banks can get gold for it, and as long as that is the case gold will not go to a premium.

Mr. Cox. But the question lies in the fact that the banks have to pay a premium for the gold.

Mr. Eckels. They would probably have to pay a higher price for it.

Mr. Cox. But the apprehension in my mind is that the depositor would rush for the gold if it was at a premium.

Mr. Eckels. They would not, however, buy the gold back from the depositors. The depositor who would take that gold would hoard it.

The Chairman. We will now take up my bill H. R. 171, but before we proceed to that I will ask you to turn to page 100 of your report for 1896. The nine recommendations therein made by the Comptroller are as follows:

SUGGESTED AMENDMENTS OF THE BANK ACT.

[Annual Report of the Comptroller of the Currency, 1896.]

It is one of the duties imposed by law upon the Comptroller of the Currency that he shall, in his annual report to Congress, indicate such amendments to the bank act as would in his judgment improve the national-banking system. In discharge of that duty, I submit for consideration the following suggestions, which it is believed, if embodied into law, would be of material public benefit:

First. That the loans and discounts of any bank to its executive officers and employees be restricted in amount, secured by proper collateral or by additional signature or signatures of financially responsible persons to the notes taken, and made only upon the approval of the board of directors, a written record thereof being kept.

Second. That no loan shall be made to a director who is not an executive officer of the bank, except either upon a deposit of collateral security or upon a note given therefor bearing, in addition to the director's own signature, the signature or signatures of one or more financially responsible person or persons.

Third. That upon a day in each year, to be designated by the Comptroller, the directors of national banks shall be required to make an examination of the affairs of the bank with which connected and submit to the Comptroller of the Currency a report thereon upon blanks to be furnished for such purpose.

Fourth. That the assistant cashier, in the absence or because of the disability of the cashier, be authorized to sign the circulating notes and to sign and make oath or affirmation to reports of condition of a national bank.

Fifth. That some class of public officers be empowered to administer the general oaths required to be taken by the national-bank act.

Sixth. That in places having a population of less than 2,000 inhabitants national banks shall be permitted, under regulations to be made by the Comptroller of the Currency and approved by the Secretary of the Treasury, to be organized with a capital stock of not less than $25,000, and with a corresponding reduction in the amount of bonds required to be deposited with the Treasurer of the United States.

Seventh. That national banks be permitted, under such regulations and restrictions as shall be made by the Comptroller of the Currency, and approved by the Secretary of the Treasury, to establish branch banks in towns and villages where no national

bank is established and where the population does not exceed 1,000 inhabitants, such branch banks to have the right to receive deposits, make loans and discounts, and buy and sell exchange, but in no case to be permitted to issue circulating notes other than that of the parent bank. It shall in all respects be considered as a part of the parent bank, and in each case where such branches are maintained the Comptroller shall receive in the reports of the central bank a statement properly sworn to and attested of the condition of its branches. He shall also have the right of separate and independent examinations, and he may, whenever he deems it necessary, require, before granting the right to any bank to maintain branches, that the paid-up capital stock of such bank be increased to an amount to be fixed by him with the approval of the Secretary of the Treasury.

Eighth. That the semiannual tax levied on account of the circulating notes of national banks be reduced so as to equal but one-fourth of 1 per cent.

Ninth. That the Comptroller of the Currency be authorized to issue to national-banking associations circulating notes to the par value of the bonds, when the market value thereof is equal to the par value, deposited by them with the Treasurer of the United States to secure such notes.

The CHAIRMAN. I wish to ask the Comptroller whether if every recommendation he therein makes was heeded by Congress and the recommendations enacted into a law, if that would relieve the condition of the embarrassment of the Treasury at all?

PURPOSE OF THE COMPTROLLER'S RECOMMENDATIONS.

Mr. ECKELS. I think I have repeatedly stated, Mr. Walker, that a banking bill that did not get rid of the demand obligations of the Government would not relieve the immediate necessities of the Treasury Department, but these recommendations, some of which are designed to improve the administrative method of banking, and others to increase banking facilities, would improve the general conditions of the——

The CHAIRMAN. Existing conditions?

Mr. ECKELS (continuing). The general conditions of the business interests of the people. But even with these there would always be the danger of recurring periods of embarrassment by the unrelieved condition of the Treasury in not having its demand obligations canceled.

The CHAIRMAN. Then the point of the recommendations is to improve and benefit the existing system without specially relieving the Treasury situation.

Mr. ECKELS. As already stated by me, they would improve existing conditions of banking, and thus they might to a small extent relieve the Treasury. They would not, however, give it the relief that it ought to have. I believe they would add immensely to the general benefit of the people. If they did not appear to me of such benefit I would not have suggested them.

The CHAIRMAN. That is the point I wanted to bring out. Well, that would be a benefit to the people. Now, if you will turn to page 17 of my argument made on February 17, 1896, in support of bill H. R. 171——

Mr. ECKELS. Before you do that, Mr. Walker, I wish to say that in this same report I discussed, in connection with these matters, the absolute necessity of the Government getting rid of its demand obligations in order to grant the total relief to which I think the people are entitled. I do not wish to be put in the attitude of making recommendations which I think could be of no benefit. They are recommendations which are designed to accomplish the best thing possible to relieve the banking situation. Whether or not the legal tenders are retired, these recommendations would be of benefit.

BILL H. R. 171.

The CHAIRMAN. That is what I wanted to bring out. That is to say, it would not relieve the Treasury situation, but would improve the banking situation. Now, if you will turn to page 17 of the argument you will please take up item 1. You have examined the five bills referred to this committee and drawn by Mr. Walker, Mr. Brosius, Mr. Hill, Mr. Cox, and Mr. Fowler, respectively?

Mr. ECKELS. Yes; I have given them such examination as I could.

The CHAIRMAN. My first statement is as follows:

> The Walker bill makes not the slightest change in the existing conditions as to gold coinage or silver coinage or the use of gold or silver, legal-tender notes, Treasury notes, or any other form of paper money, any further than is necessary to relieve the Treasury of the United States from being in any way responsible for the current redemption of any form of paper money. It provides a surer and safer method for the current redemption and also the final redemption of such notes than under existing laws.

Is not that true?

Mr. ECKELS. In answer to that I would state that the redemption by the banks, with the responsibility placed upon the banks, would be a great deal better, everything considered. It would relieve the Treasury Department to a greater extent of the present burden which these redemptions place upon it.

Mr. SPALDING. Would it be a surer and safer method? That is the question.

Mr. ECKELS. Yes, I believe that at a critical time it would be a surer method because of the fact that the banks have the machinery which the Government has not.

The CHAIRMAN. That is the true test; is it not? The actual doing and proved result is the test of anything.

Mr. ECKELS. Yes; and for the reason that you would not have everyone continually measuring his operations by the fact that the General Treasury had lost a million dollars of gold or had gained a million dollars of gold.

The CHAIRMAN. Is it not a fact that if the banks lost a million dollars of gold it would be simply the gold going out from an individual bank into another bank where, if the Treasury loses, it is a final loss to the Treasury system of redemption?

Mr. ECKELS. Everyone would not know when the banks had lost a million dollars, whereas as it is now, whenever the Treasury loses a million dollars in gold everybody knows it.

SUSPENSION IN THE PANIC OF 1893.

Mr. SPALDING. I would like to ask the Comptroller, if it is not a fact that the banks all suspended during 1893, and refused to pay currency over their counters?

Mr. ECKELS. No.

Mr. SPALDING. A large majority of them did.

Mr. ECKELS. They gave the equivalent, which was rapidly redeemed when needed, something the Government could not have done without issuing bonds.

Mr. SPALDING. And supposed to be in violation of law by so doing.

NOT A VIOLATION OF LAW.

Mr. ECKELS. I do not think it is a violation of law. But that was an illustration of the very thing I am trying to bring out. The banks have the machinery which, without enactment of law, enables them, even at as critical time as in 1893, to protect themselves and to prevent not only bankruptcy to themselves but general bankruptcy. The Government could not protect itself except by issuing bonds, which is not a very popular thing, and can not be done rapidly, except by a syndicate contract.

Mr. SPALDING. When the bank refuses to pay currency on a check of its current depositor, and the money is there to the credit of the depositor, is not that an act of insolvency under the national banking law?

Mr. ECKELS. I suppose it might be construed as an act of insolvency.

Mr. SPALDING. Isn't it a fact that the national banks in 1893 and 1894 did so refuse?

CLEARING-HOUSE PAYMENTS OF 1893.

Mr. ECKELS. No; a majority of them did not. So far as New York City was concerned they made everything payable through the clearing house.

Mr. SPALDING. Through the clearing house only, and there was no currency paid by the banks?

Mr. ECKELS (continuing). And it was a very wise measure.

Mr. SPALDING. I am not discussing the wisdom of the measure. I am discussing the actual fact that did occur.

Isn't it a fact that the Government, in its redemption, was more sure and more certain, and that the only redemption we had, and the only money we could get was largely from the Government; in payment of anything we could get currency from the Government, and that is the only way you could get currency. I was running a bank at that time and know something about it.

Mr. ECKELS. But the popular suspicion that the Government was not going to be able to do that——

Mr. SPALDING. I am not talking about the popular suspicion.

Mr. ECKELS (continuing). Created the condition of affairs witnessed. If the Government had been out of the banking business there would not have been seen the financial difficulty of 1893.

Mr. SPALDING. Isn't it true that in 1895 and 1896 the banks of Philadelphia suspended payments largely, and refused to pay currency and did not have the currency?

Mr. ECKELS. Some banks may have suspended such payments, but not largely so. Certainly no complaint ever reached me to such effect. Again, there was a condition where bonds had to be issued and the Treasury was in danger of default in its redemptions in gold of its demand obligations.

Mr. SPALDING. I was actively in the banking business at that time and I do not know of but one or two banks in the United States at that time that did not refuse positively to pay currency over their counters.

Mr. ECKELS. There was not a bank in Chicago that did not pay currency when demanded. You are mistaken about that Mr. Spalding.

COMPTROLLER'S OPINION OF H. R. 171.

The CHAIRMAN. Now, Mr. Eckels, will you please take up the 20 statements made commending my bill. I want your opinion as an expert. You having examined all the bills, I wish you to go through those statements as to the effect of the bill when enacted into law and say whether, in your judgment, they are fair statements or not. If you will read them in order it will save interruptions, and we will ask questions after you get through.

Mr. ECKELS. That is placing a pretty difficult task upon me. I think you should take the statements and ask me to give my views on such points as you desire.

The CHAIRMAN. I would prefer to do that. On motion passed by the committee it was decided that the chairman should ask the Comptroller's views on such sections of the bill H. R. 171 as he (the chairman) desired, without interruptions from the other members of the committee, and that after the different sections of this bill had been gone through with and the chairman had finished his questions, that the other members of the committee would be given an opportunity to interrogate the Comptroller or speak upon the bill in question.

Please give your opinion of the 20 propositions I lay down, beginning on page 17 of my argument, commencing at the first one.

Mr. ECKELS. We have taken up the first of your statements.

ORIGINAL PURPOSE OF THE NATIONAL-BANK ACT.

The second statement is as follows:

It makes no change in the existing banking system other than to enlarge and perfect it in accordance with its original purpose.

That is a pretty broad assertion, but it is evidently the design of the bill to enlarge the circulation feature of the bank act. The original purpose of the bank act was to provide circulating notes, which feature of banking, instead of being the principal thing with the national banks, is now only the incident. It has been given up because of a want of profit on circulating notes. The profit of banking to-day is found with the national banks to be almost entirely in its deposit feature. The basis of this bill seems to be to develop that original feature in the act, and if your estimates of profits through the provision of your bill are correct, that feature of national banking would again be developed, provided that the bill as a whole is acceptable to the banking interests.

As I stated yesterday, and I think you agree with me, Mr. Walker, the banking interests of the country must have it shown to them that this bill will accomplish these things before they will accept it.

RIDDING THE TREASURY OF CURRENT REDEMPTION.

The third statement you make is as follows:

While dispensing with the formal bonds for taking out currency, it supplies their place with a currency that is the equivalent of small noninterest-bearing bonds instantly payable upon presentation.

That, I take it, is the substituting for bond securities legal tenders in currency. You provide in your bill for getting the Government rid of the current redemption of legal tenders, and in that way for funding, practically, of the present Treasury issues. I believe that is a feature of Mr. Cox's bill, and also, to some extent, of Mr. Fowler's bill. Am I not right about it?

Mr. FOWLER. So far as the surplus amount of money in the Treasury is concerned.

Mr. COX. I do not understand from your statement, and I do not think the committee understands, how it is that Mr. Walker's bill provides for getting rid of the greenbacks. On page 9 of the bill, section 8 provides "that the Secretary of the Treasury is hereby authorized to issue United States legal-tender notes described in section 3 of the act of March 3, 1863, in the manner described in section 6, to the amount necessary to carry into effect the provisions of this act." Now, I don't understand that, and I don't think your attention, Mr. Comptroller, was called particularly to this.

Mr. ECKELS. My understanding is that Mr. Walker's bill provides that when a bank is chartered, it shall to a percentage specified, for taking out lawful money of the Government, deposit gold, silver, greenbacks, and other things. The bill you have introduced provides that the bank shall deposit legal tenders also. The section to which you refer would be resorted to only when the present issue of demand obligations had been exhausted by the banks in their deposit as required. In case other banks were organized and there were no legal tenders not absorbed the Secretary would recur to the issues of other legal tenders.

Mr. COX. Under the bill I introduced they take charge of certain of those demand notes. I understood this bill tended in the same direction. I was trying to get at what was the difference between them.

Mr. ECKELS. That is the point I tried to make when I said the provisions of this bill, H. R. 171, were not different from yours to a certain extent, that extent being the deposit of present outstanding legal tenders by the banks to secure circulation.

ISSUING NOTES AGAINST ASSETS.

The fourth statement Mr. Walker makes is as follows:

> It makes sure to banks the legitimate profit on the currency they take out in 10 per cent localities and in 4 per cent localities, and in all other localities proportionately profitable to the banks in each locality.

That, I suppose, is caused by the fact that you would permit them to issue notes against their assets to the amount of the reserves held by them.

The CHAIRMAN. Against their assets?

Mr. ECKELS. Their assets, as measured by the reserve.

The CHAIRMAN. Yes; ultimately limited by the reserve held. That is to say, 10 per cent localities would be entitled to make 10 per cent on the currency they had out, and now they can not make anything under the bond system.

CURRENT REDEMPTION PUT UPON THE BANKS.

Mr. ECKELS. Your fifth statement is as follows:

> Under the present law there is no conceivable way of preventing any individual, Hebrew or Christian, from taking out of the Treasury, without the slightest hindrance, just as much of gold as he can secure of greenbacks, to hoard or ship out of the country, and in disobedience of economic law. Under the proposed bill there is no conceivable way gold can be shipped out of the country in disobedience of economic law.

I do not think there is any doubt about that statement. Under the provision of the bill, which takes the demand obligations of the Government out of the way of current redemption by the Government and

places the responsibility therefor upon the banks, if successfully carried out, there would be a complete guarantee against the Treasury being subjected to the continual maintenance of a gold reserve against these notes. It would not be constantly in danger of a run, because, under the provision of the bill, you design to have the banks assume these obligations, and in this manner place them beyond the reach of being presented to the Treasury for redemption.

COST OF CURRENCY AND RATES OF INTEREST.

Your sixth statement is as follows:

Under the present law the cost of currency to banks, and consequent rates of interest to the people, is less and less in proportion as interest is low and growing lower.

Under the proposed bill the profit on currency is more and more as interest rates increase, and the profits grow less to banks on the currency as interest decreases. This tends to depreciate interest rates.

I would like to have you restate that provision, so that I can exactly understand the way in which the object you seek to reach can be obtained.

The CHAIRMAN. Under the present law the cost of currency to banks, and the consequent rate of interest to the people, is less and less in proportion as interest is low and growing lower. That is proved by the fact that on the bonds sold February 1, 1895, at only 104.5 and issuing currency in a 4 per cent locality, they could only make 2 per cent, or make 1.71 per cent in a 6 per cent locality, or 1.35 per cent in an 8 per cent locality, and .98 per cent in a 10 per cent locality on the currency issued.

When the credit of the Government is normally good, and the bonds sell at prices paying the purchaser 2½ per cent, or at 130.8749, the profit to banks on this currency would be as follows:

In 4 per cent localities the profit would be 43.99 per cent more than in 6 per cent localities.

Under the Walker bill it would be 50.47 per cent less in 4 per cent localities than in 6 per cent localities.

In 4 per cent localities the profit would be 174.35 per cent more than in 8 per cent localities.

Under the Walker bill it would be 106.95 per cent less in 4 per cent localities than in 8 per cent localities.

In 4 per cent localities the profit would be 6555.55 per cent more than in 10 per cent localities.

Under the Walker bill it would be 160.42 per cent less in 4 per cent localities than in 10 per cent localities.

That is, under the present system currency costs more and more to the banks as they take it out where interest is higher and less and less to the bank where interest is low, and that is proved by the actuary's figures I have given you. Under the proposed bill the profit on the currency is more and more as interest rates increase, and the profits to banks grow less as interest decreases.

PROFITS ON CURRENCY VARY DAY BY DAY.

Mr. ECKELS. Your seventh statement is as follows:

Under the present law profits on currency vary every day in the year at the same rates on loans and discounts.

Under the proposed bill the profits on currency are the same every day in the year.

Your statement is correct—that the profits on currency vary from day to day with the variations in the prices of bonds.

Your eighth statement is as follows:

PLACE OF REDEMPTION.

Under the present law practically every dollar of the $1,000,000,000 of our currency notes is redeemable in gold at the United States Treasury.

Under the proposed bill not a dollar of currency notes of any kind will be redeemable at the United States Treasury. It will give, practically, final gold redemption at the national clearing-house in New York and redemption in legal-tender notes and silver at country banks.

I think we agree that, as a matter of fact, under the provisions of the United States statute which says that the Government shall maintain the parity between the moneys, every dollar of the $1,000,000,000 or more of credit currency which is outstanding is based upon gold and redeemable in gold if so desired by the holders of it. Under your bill you proposé the banks shall assume it.

Mr. HILL. No.

Mr. ECKELS. Except in the last analysis?

Mr. HILL. It provides for current redemption at the United States Treasury.

The CHAIRMAN. I beg your pardon. Not unless the Comptroller prefers it to be done there.

Mr. ECKELS. I may be mistaken, but, as I understand it, Mr. Walker's design is to place the current redemption upon the banks. But the ultimate redemption, if that point should be reached, is upon the Government through its guaranty, which amounts to a bond.

SAFETY PROVISIONS.

Your ninth statement is as follows:

Under the present law the money of the people is made safe by banks being obliged to deliver to the Treasurer of the United States an amount of capital equal to the amount of their currency notes when they commence business.

Under the proposed bill they will deliver the same amount of capital when they close business. Under both systems the Government guarantees every dollar of the paper money in circulation and at no cost to the Government. (See p. 603, Report of Comptroller of Currency, 1895; also see App. L., p. 56 [of this volume].)

That is simply a provision of your bill as against a provision of the national-bank act.

The CHAIRMAN. The statement is correct.

Mr. ECKLES. It is correct as to what you propose to do.

The CHAIRMAN. Is it not correct that the bill, if it were enacted into law, would do that?

Mr. ECKELS. Yes; because the bill provides that there shall be security. You propose under your bill that there shall be a certain percentage of security in the way of the demand obligations, and that there shall be in addition liens, etc., upon the assets, backed by the guaranty of the Government for unlimited redemption. This certainly would make the note holder safe. As to the provision for the banks depositing the security on the amounts issued against the assets of the bank, the only difference in effect between your proposition and the present law would be that possibly the note holder and the depositor—unless you have a great many safeguards—may think it is better to have the deposit made before the bank commences business than to have it made when it winds up. But in regard to this feature of this bill, I suppose it ought to be remembered that while you are against

bond securities, you undertake to have virtually the same security by making the Government guarantor. The only difference is that it relieves the Government of this current redemption, which is the great source of its difficulty, and at the same time it does not compel the banks to tie up in securities a certain amount of loanable capital, which otherwise it might distribute among those who wish to borrow.

The CHAIRMAN. That would be a great source of loss in low-interest localities and a great gain in high-interest localities.

DAILY REPORTS OF CONDITION OF BANKS.

Mr. ECKELS. Your tenth statement is as follows:

> Under the present law the Comptroller of the Currency does not know the exact condition of the banks except by occasional reports and occasional examinations by official bank examiners.
>
> Under the proposed bill the Government will know of each day's condition of the banks and also by the same examinations as under present law.

Under the present law the Comptroller tries to know the condition of the banks by examination. Of course, any provision which would give him from day to day or from month to month a more complete knowledge would better enable him to discharge his duties.

The CHAIRMAN. Under the proposed bill he would have a daily report?

Mr. ECKELS. They are to keep, as I understand it, a daily report, but those reports would only be sent to the Comptroller once a month.

The CHAIRMAN. You would not know on each day, but subsequently you would know the condition of the banks every day in the month at the end of it, and each year.

REDEMPTION FUND.

Mr. ECKELS. Your eleventh statement is as follows:

> The present law takes out of the currency the banks are allowed the 5 per cent redemption fund the bank is required to keep.
>
> The Walker bill provides that the Government shall furnish it by setting aside 10 per cent of the money the banks pay for the half of the currency they buy in the form of United States legal-tender notes.

That is simply a statement of a fact under the provision of your bill.

Mr. HILL. Is it a fact?

Mr. ECKELS. It is a fact relative to the present law. It takes out of the currency circulation the 5 per cent.

The CHAIRMAN. My bill provides the Government shall furnish it.

Mr. ECKELS. I think any provision of the law, any amendment to the law, or any provision in a new law—referring again to section ten—which would give the Comptroller better information for the benefit of the people would be a good thing.

USE OF RESERVES.

Your twelfth statement is as follows:

> The present law forbids, under severe penalties, the banks under any circumstances to use their reserves for the very purpose for which the banks are required to keep such reserves.
>
> The Walker bill allows the banks to use their reserves in any legitimate way for the purposes for which they are required to keep a reserve.

I am under the impression, Mr. Walker, that either I have a misapprehension of the use of a reserve or you have a misapprehension. My

understanding of a reserve is that it is kept for the purpose of meeting the demands of depositors. That fact is emphasized by the change which was made in the law that discontinued or did away with the necessity of a bank keeping a reserve against notes and only compelled it to keep a reserve against deposits. For the purpose of accomplishing the thing which the reserve is kept for, a bank is justified, and, in fact, compelled to pay out the last cent of its reserve to meet the demands of depositors. It is only prohibited by the law from using that reserve to make new loans, except the meeting of bills of exchange or some such matter as that. But it can use it for the purpose for which it is created, and when it has used it for that purpose it is provided by the law that it shall have the succeeding thirty days in which to make its reserve good.

TREASURY DIVORCED FROM BANKING.

Your thirteenth statement is as follows:

Under the present law every operation of the Treasury expands or contracts the currency to the serious injury of the business of the country. Witness the outcry all over the country that the Treasury is contracting the currency and injuring business in collecting the pay for the bonds recently sold.

Under the Walker bill whatever sum the Treasury had or failed to have available would not affect the volume of the currency of the country by the smallest fraction.

I think the statement is correct, that under the present law every operation of the Treasury Department, so far as its handling demand obligations is concerned, does affect the volume of the currency.

The CHAIRMAN. The statement of paragraph 13 is correct then?

Mr. ECKELS. Yes; because under your bill you design to completely divorce the Treasury from banking and therefore it would be a matter of perfect indifference to business people whether the Treasury was all right or the Treasury was all wrong, so far as they were concerned.

The CHAIRMAN. So far as the currency is concerned?

Mr. ECKELS. Yes; if it didn't have any of these obligations to meet. Of course if it didn't have enough revenue to meet its current expenses it might cause an inconvenience to the people to whom the Government was indebted, but that would not in any wise affect the business of the people.

PROFIT ON CIRCULATION TO THE BANKS.

Your fourteenth statement is as follows:

Under the present law practically every dollar of the $1,000,000,000 currency in circulation is carried by the banks at not a cent profit to them or anybody else, but, on the other hand, at a great loss to them.

Under the Walker bill they would be relieved of $400,000,000 of this burden, and competition would soon reduce interest on their loans and discounts to the people by the legitimate profit they would get upon their currency.

I take it that the basis of your statement in that paragraph is that with the Government relieved of the current redemption of the demand obligations and the banks given the benefit of the issuance of currency against assets, bank currency could be increased $400,000,000 without any additional expense.

The CHAIRMAN. If the banks put it in circulation without having to buy bonds they would get the profit. Now they do not get the profit.

Mr. ECKELS. Your idea is that except in times of storms and business depression and restriction of credit the banks do practically currently redeem all this credit money.

The CHAIRMAN. The point is that in other countries the banks are

issuing all the currency and the banks get the profit on the currency first, and the people get it finally in lower interest, while in this country a thousand million dollars is issued by the Government on which the banks get no profit, so that being deprived of the issuing of the currency it amounts to carrying this for nothing and higher interest accordingly. They have to carry it.

ELASTICITY.

Mr. ECKELS. Your fifteenth statement is as follows:

> Under the present law national bank currency notes, which are the people's money, are a freak money. They are forced out of circulation when the credit of the Government is best, business most active, and the people need the most money; they are forced into circulation by the banks when the people do not need them and can not use them.
>
> Under the proposed bill it would be for the interest of the banks to issue most money when the people needed it, and to just as large an amount as the people can use. The competition between banks in forcing it out will make it just as cheap as money can possibly be issued under any system, and kept "good" and honestly used by the people, and when they most need it. That part and only that part of the currency will be forced back to the banks that the people can not profitably use.

The statement is correct that the volume of the national-bank note currency is curtailed when the price of bonds is the highest because of the lack of profit in taking out circulation upon high-priced bonds.

CHEAPNESS.

Your sixteenth statement is as follows:

> Under the present law the United States has the most expensive currency system of any first-class nation.
>
> Under the proposed law the currency will cost them as little as it can possibly be issued for and maintain the circulation of the legal-tender notes, etc.

I think that the Government of the United States has the worst financial system of any first-class nation. It is the outgrowth in its different parts in every instance of an immediate necessity. The national-banking system sprang from the necessities of the war and since 1864, except in slight administrative matters, has remained practically unchanged. The redemption act was the best considered of any piece of financial legislation since the war and after it went into operation, to meet an apparent necessity, one of the best things in it was taken out and instead of the legal tenders being retired and canceled beyond $300,000,000, the additional amount thereof was reissued and a compulsory law compelling the Secretary to continue to reissue them after they had been redeemed was passed.

EFFECT OF THE BLAND-ALLISON ACT.

The first piece of silver legislation, the Bland-Allison Act, was experimental to the extent that it was designed to meet and put an end to the demands of those who asked for an increase of irredeemable currency issued by the Government. It was supposed by the provision of that bill the volume of currency would be enlarged and nothing more would be heard about fiat currency. That law created a dollar which differed from the one demanded by the fiatists of that time in degree only, and not in principle.

EFFECT OF THE SHERMAN ACT.

Then came the silver-purchasing act of 1890, which was experimental and which many in and out of Congress believed at the time of its enactment would certainly bring the people into trouble. All these things could not but give the country a thoroughly poor and expensive system of finance.

BOARD OF EXPERT ADVISERS.

Your seventeenth statement is as follows:

Under the present law there is no way for the Secretary of the Treasury to avail himself of the expert assistance that is absolutely necessary to him to properly discharge his duties and that every banker in the country has in his clearing-house committee and banking associates, etc. To-day, if the Secretary seeks any advice he thereby inaugurates a panic—the very panic he may be seeking to avert.

Under the proposed bill the reverse is true. It is made to the interest of the banks to furnish to the Secretary of the Treasury as advisers, seven of the most experienced, public-spirited, and patriotic bankers in the country.

Unquestionably both the Secretary of the Treasury and the Comptroller of the Currency could be very much aided by the advice of men from different parts of the country who are conversant with the needs of those portions of the country, and an advisory board would undoubtedly be of great benefit.

CLEARING-HOUSE PROVISIONS.

Your eighteenth statement is as follows:

Under the present law the enormous expense of our financial and banking methods of itself alone, if there was no other disadvantage, puts us out of competition for the world's commerce. They are so expensive, as compared with the currency of Great Britain, that were we on precisely the same economic plane of Great Britain as to wages, machinery, skill, enterprise, ability, steamships, railroads, navy, diplomatic and consular agents, and established business at every point, duplicating that of Great Britain, the difference between the cost of money in this country as compared with that of Great Britain, France, or Germany would enable Great Britain to beat out and destroy our foreign trade in favor of her own, and wholly on account of our banking and Treasury redemption system.

During the whole period from 1879 to 1891 the United States Treasury took all the risk and was at all the expense of the clearing-house system of its current gold redemption of legal-tender and Treasury notes. Then, and it will be the same again, confidence could not be maintained in such empirical practices without a surplus in the Treasury as large as was then held, or very nearly $300,000,000, about half of it in gold, equal to half the national banking capital in the country. Every advantage accrued to the banks and every disadvantage, expense, risk, and loss to the people through the United States Treasury.

Under the Walker bill the United States Treasury would only touch the national clearing house as a fiscal agent and depository of public moneys, having as a guaranty of the safety of such deposits the whole $1,000,000,000 of banking capital of the country as a guaranty fund for its deposit in the national clearing house. The Treasury could in no event incur any loss or be put to any expense, as it would be the only depositor of money in that association. Except in the Walker bill, or its equivalent, there is no possible way of avoiding the continuance of this enormous loss to the people. There is no conceivable way of resuming a safe Treasury coin redemption of paper money but in returning to the practice described by Mr. W. Dodsworth or enacting into law the Walker bill or its equivalent.

It provides a more effective and far safer connection of the Treasury of the United States with the principal banking clearing house in the country, and relieves the United States Treasury from taking all the risks and of being subject to all the losses that are involved in the clearing-house business of the country, which risk is carried from the resumption of specie payments in 1879 to about the middle of 1891, at an expense to the people, supplied by taxation, of over $12,000,000 a year.

I do not know that I would state it as broadly as you do, but unquestionably we are placed at a disadvantage by an expensive financial system, because anything which adds to the general expense of the people to that extent affects their ability to compete in a business way with people who are not under that disadvantage.

USE OF RESERVES.

The CHAIRMAN. I have only one question to ask. Please turn back to my twelfth statement, which you have read. It says the law forbids under severe penalties the banks under any circumstances to use their reserves for the very purpose for which they are required to keep such reserves. My point there is a practical one and it is this: that banks shutting down absolutely and immediately upon their loans to their customers and refusing discounts will cause the insolvency of the customer and tend to fail the bank also, when if they could loan their funds to customers to recover and recoup their credit gradually the banks would be just as safe and absolutely safer, and that therefore the law forbids their doing what every banker does under the same conditions where that restriction is not upon him, and therefore it amounts in practice to the forbidding of the doing of the thing practically necessary to be done.

Mr. ECKELS. Except that I believe, Mr. Walker, the statement, in view of the provision of the law, is not worded exactly right.

The CHAIRMAN. That is to say, it is worded too strongly.

Mr. ECKELS. Well, it is worded too strongly, then. I think that in that proposition you ought to have embodied just what you have stated, because it puts that which you do not wish to have understood——

The CHAIRMAN. Then I ought to say to rightly use. That would cover it.

Mr. ECKELS. I think you might say that the present provision of the law is based upon an incorrect principle.

In a general way, Mr. Walker, I want to say this, that, as I have stated to the committee, in your bill are embodied a good many correct banking principles.

The CHAIRMAN. What are the principles in it that are not correct?

Mr. ECKELS. I have not said that there are any that are not, but that the objection that it will meet with, as will the other bills here, is the undertaking to engraft an entirely new note system in this country.

The CHAIRMAN. Upon the present system?

Mr. ECKELS. Upon the present system; and that when a new act is passed which will supersede the present banking act it will be upon principles which incorporate the issuance of credit currency against assets, something provided in this bill. It is going to take a long time, I think, to get the banking interests to accept an entirely new bill; it is going to take a longer time, I think, for Congress to accept it, and it is going to take a still longer time for the public to accept it.

The CHAIRMAN. We are not discussing that. I think the people may think the banks can take care of themselves.

UNANIMOUS COMMITTEE REPORT ESSENTIAL.

Mr. ECKELS. I think one of the essential things is that when a bill comes from this committee it should be practically a unanimous bill.

The CHAIRMAN. Have any gentlemen of the committee any questions they would like to ask the Comptroller?

ISSUE OF LEGAL TENDER.

Mr. HILL. Will you kindly take House bill 171 and look at section 8, page 9? I find there:

> The Secretary of the Treasury is hereby authorized to issue United States legal-tender notes, described in section 3 of the act of March 3, 1863, to the amount necessary to carry into effect the provision of this act.

I want to ask you whether or not you think a proposition of that kind, whereby the Secretary is authorized to issue to an unlimited extent legal-tender United States notes, would be accepted by the people at the present time?

The CHAIRMAN. It is not an unlimited issue of United States notes.

Mr. HILL. I beg your pardon, Mr. Chairman; I understand I have the floor now.

Mr. ECKELS. The section seems to limit the issue of notes to the amount necessary to carry into effect the provisions of this act, which, I take it, is the amount the banks could absorb.

Mr. HILL. Dependent solely upon the amount of bank capital?

Mr. ECKELS. Yes.

Mr. HILL. Do you think that would meet the views of the people of the United States at the present time?

Mr. ECKELS. I do not think the people of the United States want any more demand obligations issued, but just here, to be perfectly fair to myself and the chairman, as I understand it, it is not the purpose of the chairman in his bill to have a single dollar of demand obligations issued by the Government except as a basis for circulation, which he looks upon as a noninterest-bearing bond, and that whenever a bank goes out of circulation that note is redeemed and canceled.

Mr. HILL. Certainly; I understand so.

Mr. ECKELS. In this connection I wish to say that my own view, heretofore expressed, is that the safest and surest plan is to pay and cancel, and thus get all the demand obligations out of the way. It is the chairman's idea that at this time that is not practical, and this is the next best thing.

The CHAIRMAN. A makeshift.

Mr. ECKELS. Yes, the imprisonment feature.

Mr. HILL. Do you believe that the United States can issue a legal-tender currency and put it in the hands of the banks for current daily redemption and cease the responsibility for current daily redemption themselves?

Mr. ECKELS. I think the banks could take care of the current redemption of the notes issued by the banks.

Mr. HILL. I think, undoubtedly, as a physical proposition they could; but I am talking about the responsibility of that daily redemption of the legal-tender United States notes. Can the United States divest itself of its responsibility while the note is in existence?

Mr. ECKELS. If the United States attaches legal-tender properties to these notes, I suppose if the bank failed to currently redeem them that would be an act of insolvency, and then the bank would go into the hands of a receiver and the United States would assume the ultimate redemption.

The CHAIRMAN. The bill provides that.

Mr. ECKELS. I want it distinctly understood that I do not believe myself in the Government issuing any demand obligations; but here is an embarrassing situation, and the question is, What is the best way to get rid of it?

Mr. HILL. Understand, I am not asking these questions for the sake of finding fault with the bill, but I want to have a clear understanding of it myself. There are many things in the bill I like. Turn to section 5 as it is in the new bill you now have.

Mr. ECKELS. Of course all these bills are the particular bills of those introducing them, and I am simply here to reply to such questions as the gentlemen of the committee desire to put to me.

RESTRICTION OF CIRCULATION.

Mr. HILL. On the bottom of page 9 you find section 10:

> That the Comptroller of the Currency shall issue in blank to any association and the association may issue currency notes of different denominations, as provided in section 20, in addition to the greenbacks described in section 6, etc.

The point of the question I wish to ask is whether it is a safe proposition that the Comptroller of the Currency should have the right that is there given him to reduce or order the issue of currency at his own option or guided and aided by a committee of counsellors, controlling the entire circulation of the United States at his option. Do you think that is a safe proposition to go into law?

Mr. ECKELS. I stated yesterday, Mr. Hill, that so far as my own views were concerned I did not believe in restrictive measures relative to circulation; that if I placed the responsibility upon the banks of redeeming them, I should give the banks the liberty of using their own judgment—leaving it to the managers of the banks as to whether or not there should be an increase or contraction—but there might be a set of circumstances where an emergency would arise when it might seem necessary to issue a very large amount. My theory of bank-note currency is to give the banks the right and to place upon the banks the responsibility, and having done that let them exercise their best judgment, believing that they would always do the thing which would contribute best to the prosperity of the people, because only through the prosperity of the people could they themselves prosper.

The CHAIRMAN. Turning over to page 11 of the bill (H. R. 171) of December 6, 1895, I refer to the emergency circulation.

Mr. BROSIUS. Section 17 contains the emergency issue, page 13.

EMERGENCY CIRCULATION.

Mr. HILL. Section 17 provides that the Comptroller may issue to the national clearing house provided for by section 62, or to any banking association organized under this act, the greenbacks described in section 6 to any amount approved of in writing by the Secretary of the Treasury, in addition to the amount issued under section 6. This provides for an emergency circulation to be issued in the first place, and it provides later on for an emergency circulation to be issued by clearing houses.

The CHAIRMAN. Issued to clearing houses?

Mr. HILL. Issued to the national as well as to the local clearing houses. I would ask whether, in your judgment, under that identical bill—it is identical in all its provisions, the public is absolutely unable to distinguish between the bank issues—it is a legal-tender bill the same as the other, but a United States legal tender—does not the same necessity exist for a redemption fund being set aside as under the other bills?

Mr. ECKELS. Undoubtedly these bills could be currently redeemed unless the bills should be for a definite period of time, to be redeemed just as the clearing-house certificate is redeemed.

Mr. BROSIUS. But the redemption fund held by the United States Government should be increased proportionately with the issue of such currency.

Mr. ECKELS. If the notes were to be currently redeemed; but if the notes provide that they are to be redeemed at certain times, it might not be necessary to increase the current redemption fund.

Mr. BROSIUS. But the bill does not so provide.

The CHAIRMAN. It is a penalty if they are kept out.

Mr. BROSIUS. Yes; of course.

CLEARING-HOUSE CERTIFICATES.

Mr. ECKELS. I take it these notes are to be the same as clearing-house certificates, except in small denominations.

The CHAIRMAN. "Of not less than $1,000."

Mr. ECKELS. And that they can be used for that which a clearing-house certificate can not be, viz, to circulate as currency. Under the general rules of clearing houses, certificates issued can not circulate as currency. Under the operation, for instance, of the New York Clearing-House Association the present clearing-house certificate is something like a collateral.

RESPONSIBILITY FOR CURRENT REDEMPTION.

Mr. HILL. Section 27, on page 18, of the new bill, provides that the Treasurer shall at all times keep and have on deposit in the Treasury of the United States, in coin or in coin certificates for the redemption fund of each association, during the solvency of the association, the 10 per cent provided in section 12, to be held and used for the current redemption of its greenback and reserve notes; and when the notes of any association organized under this act, assorted or unassorted, shall be presented for such redemption to the Treasurer of the United States in sums of $500 or any multiple thereof, or in sums equaling not less than 1 per cent of its total circulation of banks having less than $30,000 in circulating notes, the same shall be redeemed.

Now, does not that provide for a current daily redemption, not only of legal-tender paper issued under this bill, but also reserve notes issued under this bill?

Mr. ECKELS. It is supposed that every note issued by the bank would be currently redeemed.

Mr. HILL. But doesn't this provide for a current daily Treasury redemption?

Mr. ECKELS. I suppose that that which Mr. Walker desires to arrive at is that the responsibility for current redemption shall be placed upon the bank, although it may be done through the agency of the Government.

The CHAIRMAN. That is a provision of existing law.

Mr. ECKELS (continuing). That the Government simply acts as an agent, so far as current redemption is concerned, but the total responsibility of current redemption is placed upon the bank, and that the final responsibility, in case of the failure of a bank, comes upon the General Government under its guaranty.

Mr. BROSIUS. Isn't this the same provision as that now existing in reference to current redemption?

Mr. ECKELS. Except that Mr. Walker's bill increases the percentage of the redemption fund placed with the Government to 10 per cent.

RELIEVING THE GOVERNMENT OF BANKING FUNCTIONS.

Mr. HILL. Does the bill, as a matter of fact, relieve the Government of its banking functions or does it put it into the business very much more deeply?

Mr. SPALDING. That is the point.

Mr. ECKELS. My idea is that when we speak of the banking function of the Government we apply that term to the Government's issuing demand obligations, which demand obligations Mr. Walker designs under his bill to eliminate in so far as the redemption from day to day is concerned, and that instead of the holders thereof being able to go to the Treasury and obtain on those demand obligations gold, which has been secured by the Government through its own agents or through the means of customs receipts or through the issuance of bonds, the gold therefor shall be supplied by the banks. The responsibility of the Government is to be simply to see that the banks keep that amount there, that the Government stores it, that the Government pays it out, and that if there is failure on the part of the banks to provide for redemption the Government will step in and close the bank.

The CHAIRMAN. Isn't it a fact that my bill makes the Government only an agent, and that under the present law the Government is made the principal?

Mr. HILL. I understood Mr. Brosius to say the terms of this are identical with the present law. I see in the next section it is within the power of the Secretary to transfer it to the others, taking proper security, and that does not relieve the Government of responsibility.

Mr. ECKELS. Under the present law the Government is the agent for the redemption of the bank, but the banks supply the required amount of lawful money for making the redemptions.

Mr. HILL. Under the provisions of this bill, as I understand it, the banks of the United States can organize into local clearing-house associations; the local clearing-house associations can organize into what is known as the national clearing-house association. Under the provisions of this bill the board of control, which it provides for, has absolute power to order the withdrawal and redemption of the circulating medium or the bank issues, or to order them issued, either one. Do you believe it is a safe power to put into the hands of any four men in this Republic the absolute control through the clearing-house association, which this provides for, making practically one large national bank, as it is possible it would be, with full power of the issue and withdrawal of the circulation?

AGGREGATED CAPITAL NOT DANGEROUS.

Mr. ECKELS. As I have said, I would like the banks largely to arrange that matter among themselves. It seems to me self protection would prevent any undue danger, even though they should select a certain set of men as managers. I believe that there is a good deal of exaggeration as to the dangers attendant upon the aggregation of capital. I do not think aggregated capital does anything more dangerous to the public's interests than individual capital, because aggregated capital is simply the capital of combined individuals, and combined individuals in a corporation know that their institutions can not prosper if there is

not general prosperity among the people. There can not be a situation with the people poverty stricken without capital each day lessening its own holdings and thereby impoverishing those who constitute the corporation and lessening the amount of profit which they draw from a use of the general aggregate.

Mr. BROSIUS. Recurring to the first item in the general statement, I think I will ask you a question or two, Mr. Comptroller.

PRESENT REDEMPTION METHOD SURE AND SAFE.

Turning to page 17 of Mr. Walker's argument showing the excellencies of the bill, I want to ask you whether the present mode of redemption, under existing law, is not absolutely sure and absolutely safe, as long as the Government's credit stands.

Mr. ECKELS. As long as the Government's credit is of a character that it can obtain an amount of gold necessary to meet these things; but in the maintenance of that credit there is a tremendous expense put upon the people, in the way of taxation upon bonds; and in the way of the daily disturbance of the business of the people, who either wrongly or rightly measure their undertakings by the probability of the Government's maintaining its credit. It seems to me the Government should be put in a position where the necessity did not exist for exerting itself always to maintain its credit.

Mr. BROSIUS. You mean to say that the maintenance by the Government of these demand obligations under existing law is liable to bring embarrassment upon the Government?

Mr. ECKELS. Yes.

Mr. BROSIUS. Of course, you will see that my inquiry did not reach to that. I am only speaking of the question of redemption——

Mr. ECKELS (continuing). Because it is in the power, Mr. Brosius, of any set of men in New York City, or any other part of the country, to gather up $100,000,000 of legal tenders and take them suddenly to the Treasury for redemption, and thereby break the Government.

SAFE, BUT EXPENSIVE.

Mr. BROSIUS. Exactly; but as long as the Government is not broken redemption is sure and safe.

Mr. ECKELS. Yes, but it is made more expensive than it ought to be.

Mr. BROSIUS. Does that involve the point of surety and safety?

Mr. ECKELS. No.

Mr. BROSIUS. I am only arguing one point.

Mr. ECKELS. No; it is sure and it is safe as long as the Government's credit is not broken down.

Mr. BROSIUS. That is the point, then——

Mr. ECKELS. But it is expensive.

Mr. BROSIUS. I make the inquiry because the statement in the argument is, first, that this bill provides a surer and safer method for the current redemption, and also the final redemption of such notes, than under existing law. The point is, as you have indicated, that until the Government is broken present redemption is absolutely sure and safe.

Mr. ECKELS. But it can not be told from day to day whether the Government is not going to be financially broken.

Mr. BROSIUS. Of course, that is so; but I say until it is broken.

Mr. ECKELS. Of course if there is in the Treasury of the United States a tremendous surplus of gold which lies there as a fund for some

future emergency, which is taken out of the channels of trade and which is a cause of higher rates of interest because of that fact, there is provided a safe method of redemption and a sure method of redemption; but why should we have a thing that entails such expense to accomplish the thing that we desire when we can save that expense?

Mr. BROSIUS. That may be so. There may be other reasons for changing the system which do not involve the question of security.

SAFER AND BETTER REDEMPTION BY BANKS.

Mr. ECKELS. On the other point—the matter of safety—taken from day to day and year to year, I think that with other conditions properly adjusted there would be in a time of emergency a better and a safer redemption by the banks than by the Government. It would come about because the banks have the means, as I have stated before, of obtaining the gold immediately without going through the long process that has to be gone through with by the Government unless there is a syndicate contract.

THE SYNDICATE BOND CONTRACT.

There could be nothing more in point than that syndicate contract. It was an illustration of what the Treasury could do when it undertook to exercise the legitimate function of a bank to obtain gold to meet an immediate necessity. It did the thing which was designed, but in doing it it created a storm of objections. Every bank can do exactly that thing when the necessity arises, and there would not be any questions raised or issues discussed. Upon the other hand, whenever the Government undertakes to do a thing which a bank does there are protests on every side. If the banks were compelled to do this thing when confronted, as the Treasury was, with all these outstanding obligations, and with but $8,000,000 of coin in the vaults of the Treasury, they could always, within twenty-four hours, make an arrangement with those who could command the gold, to make the situation perfectly safe, and business would go on uninterrupted.

Mr. BROSIUS. But up to the limitation of the ability of the Government to provide the means of redemption, it is perfectly safe and secure as it is.

NOT SAFE IN AN EMERGENCY.

Mr. ECKELS. It is safe and sure, but it is expensive. It is safe when everything is all right, but it is not safe when an emergency is to be met. There must be the provision for the emergency as the center of a sound financial system. A system which is good when everybody is well off financially and weak in times of financial difficulty is just the system to be avoided. The test of strength should be applied to its weakest point.

Mr. BROSIUS. Given this situation when, by reason of the state of exchange we are called upon for a large export of gold, which is in the best situation, possesses the most power, and the greatest facilities for answering such an unusual demand, the Government of the United States, which has the power to issue bonds and command gold from the four corners of the earth, or the private banking institutions?

CIVIL WAR CONDUCTED ON A GOLD BASIS.

Mr. ECKELS. The banking institutions. The Government would have been, in more than one instance, financially embarrassed if the banks

had not come to its assistance. The civil war in its first inception was carried on on a gold basis through the gold supplied by the banks and would have been carried on to its finish in that way if the Government had not undertaken to introduce a method of obtaining money through the issuance of promises to pay, in the shape of currency notes.

Mr. BROSIUS. How would the banks get the gold if the people who have the gold refuse to sell it to the banks.

Mr. ECKELS. There never was such a condition if sufficient was offered for it.

Mr. BROSIUS. But you said if the banks refused to come to the rescue of the Government by supplying them with gold the Government would be broken; but what bank ever did refuse to come to the assistance of the Government when it could exchange its gold for a bond bearing interest and making it profitable for it to do so?

Mr. ECKELS. The Government ought not to be compelled to issue bonds, increasing the taxes of the people, to maintain a Government currency which is unnecessary.

Mr. BROSIUS. That raises another question, but your point is that the Government might not be able to get gold from the banks. You say the banks could do this thing better; but the banks must depend upon gold either from the people here or people in other countries, and if you assume that the banks will not let the Government of the United States have its gold—the best purchaser in the world—what becomes of my assumption that other people will not sell their gold to the banks? My point is that the Government of the United States, by reason of its power and facilities, can command gold from the four corners of the earth, and always could do it when it issues bonds, whereas the banks may not be able to find gold anywhere.

Mr. ECKELS. The facts are that the Government——

Mr. BROSIUS. Has always found it when it wanted it.

A SELFISH PROPOSITION.

Mr. ECKELS. Yes, through the banks. As I said the other day, Mr. Brosius, there must be eliminated from this question the elements of patriotism and the element of sentiment. We are dealing now with a selfish proposition, and a banking system can not be established on any other lines and be perfectly safe.

USE OF RESERVES.

Mr. BROSIUS. Turning to statement 12, in Mr. Walker's argument, page 18, he says that the present law forbids, under severe penalties, the banks under any circumstances to use their reserves for the very purpose for which the banks are required to keep such reserves. Is it not the law to-day that any bank can use its reserves to any extent it pleases without becoming amenable to any penalties whatever, and not until the Comptroller of the Currency notifies them to make good their reserve, and they fail to do so within thirty days, do they become amenable to any penalties, and the discretion of the Comptroller can be exercised in notifying them to make good their reserve? So, as a matter of fact, under existing law any bank can use its reserves in case of a stringency to their utmost limit without becoming amenable to any penalties until notified by the Comptroller that they must make their reserve good.

Mr. ECKELS. If the bank directors willfully insisted on continually violating the provision of the law that they shall not use their reserves except to pay their depositors, or in such way as the law provides, an action might be brought to forfeit the charter of such a bank.

Mr. BROSIUS. How could an action be brought to forfeit the charter of a bank when it had been guilty of transgressing no law?

Mr. ECKELS. I think that provision of the law——

Mr. BROSIUS. Let me refresh your recollection, Mr. Comptroller.

DISCRETION ALLOWED THE COMPTROLLER.

Mr. ECKELS. Yes. I think that provision of the law does not expect that a bank shall continually loan money when its reserve is short and that——

Mr. BROSIUS. But they are permitted to do so until notified by the Comptroller?

Mr. ECKELS. They are not permitted to make any loans, but can use the reserve for payment of depositors.

Mr. BROSIUS. So the Comptroller will understand that this question has only become important in cases of stringency where it was really necessary for the bank to draw upon its reserves beyond the usual limit, and the discretion of the Comptroller in such a case should be exercised, as he has a knowledge of the situation, and he would exercise a wise discretion in not calling upon a bank——

The CHAIRMAN. In not enforcing the law?

Mr. BROSIUS. That is enforcing the law. The law does not require that notification at any time. The law places it in the discretion of the Comptroller as to when he shall give that notice to the bank.

Mr. ECKELS. He is supposed to do it when it comes to his notice.

Mr. BROSIUS. It may be so——

Mr. ECKELS. The Comptroller has a wide discretion, and, generally speaking, I think it is generally exercised wisely.

PLACE OF REDEMPTION.

Mr. CALDERHEAD. A portion of my question has been answered already in reply to questions asked by other members of the committee, but a paragraph of Mr. Walker's argument states that the bill will give, practically, final gold redemption at the subtreasury in New York and redemption in legal-tender notes and silver at country banks.

The CHAIRMAN. No; it says at the national clearing houses, not subtreasury.

Mr. CALDERHEAD. He says there that [reading] "under the proposed bill not a dollar of currency notes of any kind will be redeemable at the United States Treasury. It will give, practically, final gold redemption at the national clearing house in New York and redemption in legal-tender notes and silver at country banks."

WITHDRAWAL OF GOLD FROM BANKS.

How will that prevent the withdrawal of gold for shipment?

Mr. ECKELS. It simply would make the withdrawal of gold from the banks instead of from the Treasury. That is the whole object of this bill. One of the principal objects of this bill is to make the banks the source of supply for the gold needed for business purposes, instead of the Treasury.

Mr. CALDERHEAD. I understand that. Now, isn't it a fact that from 1878 until the time when the Treasury suspended gold payments of balances at the clearing house in New York the gold withdrawn was practically withdrawn from banks?

Mr. ECKELS. Yes.

Mr. CALDERHEAD. Since the Government suspended the payment in gold of its balances at the clearing house in New York the gold has been withdrawn from the Treasury?

Mr. ECKELS. Yes.

Mr. CALDERHEAD. Why would not the gold still be withdrawn from the banks if the Government would resume the payment of its balances at the clearing house in gold?

Mr. ECKELS. Because there is not such faith in the credit obligations of the Government now as there was when the amount of them was less and when customs duties were being paid in gold and a very large gold reserve was in evidence in the Treasury. The banks then knew at any time they wanted to take their legal tenders to the Treasury they could get the gold in exchange therefor.

Mr. CALDERHEAD. Is it not a fact that from 1878 until the Government suspended payment of its balances in gold the people paid in gold?

Mr. ECKELS. Yes; because the individual then was as willing to have his legal-tender obligation, which he felt certain would be redeemed in gold at any time presented. When, however, the conditions changed, he felt it was a good deal better to have his gold, and, as he could pay in something else, he preferred to pay in something else.

CAUSE OF SUSPENSION OF GOLD PAYMENTS.

Mr. CALDERHEAD. What was the cause of the suspension of the payment in gold?

Mr. ECKELS. I think the suspension of the payment of balances in gold arose from the conditions caused by the increase in the credit instruments of the Government without a corresponding increase in the required means of meeting them.

The CHAIRMAN. I received a letter from Hon. Charles Foster, ex-Secretary of the Treasury, which indicated that this ceasing to pay the balances in gold was hardly a matter that came to his or anybody's cognizance. It grew up naturally and without design.

CESSATION OF CUSTOMS PAYMENTS IN GOLD.

Mr. BROSIUS. Mr. Calderhead, will you allow me to supply the statement of the danger on that point, because I have given that matter some examination.

Mr. CALDERHEAD. Certainly.

Mr. BROSIUS. The fact is that the cessation of the payment by the Treasury of the balances in gold followed instead of preceded the cessation of the payment of customs in gold. In other words, by reason of the alarm that was aroused in the public mind for reasons we all understand, payments of customs in gold began to fall off, and it became necessary for the Government to cease paying its balances in gold. The point is to get the order of precedence correct.

Mr. CALDERHEAD. The alarm appears to have existed in Mr. Foster's mind for a year and a half before there was an alarm in the mind of the public, and he curtailed the payments in gold himself.

Mr. BROSIUS. I can show my friend the figures as I have them of the payment of customs and of the settlements in gold, and it demonstrates clearly the point.

Mr. CALDERHEAD. I thought I was speaking from the figures myself.

As a final question, I would ask you. Mr. Comptroller, would it not relieve the Treasury, would not the surest way to relieve the Treasury be, to resume the payment of balances in gold?

Mr. ECKELS. Provided the Treasury has gold.

Mr. FOWLER. Assuming that were done, that the Government should now begin to settle with the clearing house in gold, would that be any reassurance to the public that this question that is now under debate—whether we have a gold standard or a silver standard—would be settled?

Mr. ECKELS. No; I think not. I can not conceive myself of why the people of the United States should raise any objection or find any fault with people who do the thing which the Government expects them to do, in demanding continually these gold redemptions even for hoarding or investing, as long as the Government keeps out the means of doing it, and thus declares it to be a good thing for the Government. There is nothing unpatriotic about it. It is a business proposition.

The CHAIRMAN. Mr. Stallings or Mr. Hendrick, do you desire to ask any questions?

Mr. STALLINGS and Mr. HENDRICK. No, sir.

TWO KINDS OF REDEMPTION.

Mr. SPALDING. In paragraph 8 of Mr. Walker's argument he says:

> Under the proposed bill not a dollar of currency notes of any kind will be redeemable at the United States Treasury. It will give, practically, final gold redemption at the national clearing house in New York, and redemption in legal-tender notes and silver at country banks.

Just above that he says that under the present law practically every dollar of the $1,000,000,000 in currency notes is redeemable in gold at the United States Treasury, and then he makes the statement I have just quoted. Would not that make two kinds of redemption? I am asking for information, because a bank that would pay silver in one place and gold in another place, it seems to me, would get in trouble.

Mr. ECKELS. I think that is a question Mr. Walker ought to answer.

The CHAIRMAN. While silver dollars are a legal tender and the bullion in them is of less commercial value than the gold in a gold dollar, there must be a wide discretion allowed banks in what they will redeem in, and the present law does not provide for any gold redemption anywhere, except in New York and San Francisco. The proposition is that the bankers would ordinarily refuse to redeem in gold anywhere, excepting when the necessities of a customer of the bank requires it, except in New York and San Francisco. They would redeem in gold to no greater extent than necessary to keep all kinds of money at a parity.

BANKS REALLY MAINTAIN PARITY OF METALS.

Mr. SPALDING. I wanted to know whether, under that bill, it would make gold in New York and silver in Kansas?

The CHAIRMAN. All kinds of money would be kept at a par in Kansas.

Mr. SPALDING. At the present time the Government maintains the parity of the two metals.

The CHAIRMAN. Only nominally. The banks have really done it.

Mr. SPALDING. The Government is obliged by law to maintain the

parity of the two metals. I simply stand on a law. Under this bill you can get gold in New York but you can't get gold in Minnesota.

The CHAIRMAN. You can't get it in Minnesota now.

Mr. SPALDING. Yes, you can.

The CHAIRMAN. No; you can only get it in New York, but as a matter of practice, you may—not as a matter of legal right.

Mr. SPALDING. Now, you are discriminating in favor of New York City. It seems to me that there is grave doubt about this being a bill that will give satisfaction, if the argument which you have made here in regard to the bill is true. You may be mistaken in regard to the bill.

The CHAIRMAN. No; not at all.

Mr. SPALDING. That would make gold in New York, and in Kansas City, where there is an immense trade, all you could get would be silver.

The CHAIRMAN. If there are no further questions on this bill, Mr. Cox's bill will come up now.

Mr. NEWLANDS. I wanted to ask a few questions of the Comptroller on this bill.

The CHAIRMAN. Perhaps we had better take a recess now.

Thereupon, at 1.15 p. m. the committee adjourned until 1.45 p. m.

AFTER RECESS.

The committee reassembled at 1.45 p. m.

Mr. NEWLANDS. I have a few questions to ask Mr. Eckels:

Will this bill, called the "Walker bill," do away with the issue of the United States bonds for gold redemption?

Mr. ECKELS. Only in case of the success of Mr. Walker's plan to absorb as a security for bank-note issues the demand obligations of the Government, commonly known as greenbacks and Sherman notes.

Mr. NEWLANDS. And Treasury notes also?

Mr. ECKELS. And Treasury notes; and then it would not do away with bonds if circumstances should arise whereby the silver coin should not maintain itself.

Mr. NEWLANDS. Do you think the obligation of the Government would exist to maintain a parity of silver coin with gold by redemption in gold?

Mr. ECKELS. Yes; I believe, however, if it was manifest that the policy of the Government was to retire the obligations of which I have spoken, there would not be the danger from a silver coin that there is now. As I stated the other day, I look upon this silver coin as credit currency to the extent of the difference between its face value and the intrinsic value of the metal in the coin, just as I do upon these other obligations. Although I do not think the riddance of these obligations would entirely do away with the necessity of the maintenance of a reserve, it would tend to do so to a very great extent. It certainly would render it less difficult and less expensive as well as less uncertain.

Mr. NEWLANDS. There might be a possibility of the necessity of the Government maintaining a considerable reserve fund in gold in order to redeem silver in gold; is that your position?

Mr. ECKELS. Yes; under certain circumstances.

Mr. NEWLANDS. Do you think that is a remote or near possibility.

Mr. ECKELS. I do not think it a possibility that is very near, if there is not some legislation which increases the silver currency of the country. In connection with Mr. Walker's bill it might be stated that he makes a provision whereby there shall not be any paper currency in

circulation less than a $3 bill, his idea evidently being to have the silver dollar circulate, as it does not now circulate. I think he also provides that as a part of the reserves deposited against bank-note issues, which he terms greenbacks, there shall be a certain proportion of silver certificates, or there may be a part in coin. I do not think there is the danger from the silver that there is from the other obligations which the Government is maintaining.

Mr. NEWLANDS. Outside of the possibility of the necessity of maintaining a gold reserve for the gold redemption of silver, would there be, under this act, any necessity for the issue of bonds for gold-redemption purposes?

Mr. ECKELS. Not for currency redemption, and if the operation of his act is to shut up these legal tenders there probably would not have to be any other for permanent redemption. The tendency would be, if the people felt that the demand obligations of the Government were not being currently redeemed by the Government, to return to the payment of impost duties in gold. He specifies that as one of the provisions of his bill whereby, I take it, he expects to accumulate a fund of gold for the permanent redemption of these notes.

IMPRISONING THE CREDIT MONEY.

Mr. NEWLANDS. Do you think this bill would be effective in imprisoning all the credit money of the United States except the silver coin, which you characterize as credit money?

Mr. ECKELS. I would not want to pass an opinion upon this subject unless I felt certain that the anticipation of Mr. Walker would be fulfilled—that the banks would be very eager to go into his proposed system. The matter turns on whether the banks would want to go into it, and it would not be effective unless the banks did go into it.

Mr. HILL. That is, unless the banks took hold of it quite universally.

Mr. ECKELS. Yes.

Mr. NEWLANDS. Does this act in any way compel the banks to take advantage of the provision or carry out the provisions of this act?

BILL PERMISSIVE AND NOT MANDATORY.

Mr. ECKELS. It is voluntary with them. One section of the bill gives them the option of voting whether they shall reorganize under this proposed act or continue under the present one.

Mr. HILL. But they lose circulation if they do not reorganize.

Mr. FOWLER. But they don't have to go in?

Mr. ECKELS. No.

Mr. NEWLANDS. Would a national bank forfeit its charter under the provisions of this bill unless it went in?

Mr. ECKELS. No; I understand not.

Mr. NEWLANDS. Then I would ask if it is so persuasive in its features as to probably induce the banks to avail themselves of its provisions?

Mr. ECKELS. That is a question which would have to be intelligently answered by the banks themselves. Mr. Walker's calculation is that there would be a very large per cent of profits over and above the per cent of profit accruing to the banks at present; but whether or not the banks would agree with him I can not say.

Mr. NEWLANDS. In your judgment would it be persuasive?

Mr. ECKELS. I could not say as to that. There are, as I have said, some very excellent features in the bill, but as to whether or not the

banks would be willing, under the inducement offered, to take the responsibility of these redemptions and run the risk of having a doubt in the minds of the public because of so radical a change, is a pretty hard question for me to answer.

Mr. NEWLANDS. Is there a risk in these redemptions?

REDEMPTIONS SAFELY TRANSFERRED TO BANKS.

Mr. ECKELS. I do not think, myself, there is any risk at all in transferring the redemptions to the banks, but my views may be very much more radical than the views of a great many other people, especially people who, in the general care of business matters, do not view the thing from the same standpoint that I view it from.

Mr. NEWLANDS. How could we ascertain whether or not the banks would be pursuaded to accept the provisions of this act?

Mr. ECKELS. I take it that it might be ascertained if in the first place this committee was pursuaded to report it, and in the second place if it could get through Congress.

Mr. NEWLANDS. Action of Congress then would have to precede any action by the banks themselves as to whether they would acquiesce in its provisions?

Mr. ECKELS. Yes; action by the committee would have to be first and then action by Congress, because I take it that every member of the committee would want to ascertain the view which those who are expected to go into this reorganized scheme held of it, and then it would have to be gotten through Congress, which would depend largely upon how much of the banking interests were back of it and how much public sentiment was back of it.

Mr. NEWLANDS. Then I take it that the individual members of this committee and the individual Members of Congress must push their own inquiries in their various districts, as to whether the provisions of this bill will be acceptable to the banks? You know of no way of an organized method by which the banks, in anticipation of our action, can indicate whether or not they will accept its provisions?

Mr. ECKELS. I do not know of any way of ascertaining how this bill would be viewed except in the way I have indicated.

PROVISIONS ADVOCATED BY CONVENTIONS.

Mr. NEWLANDS. In these national-bank conventions has there been any indication that the provisions of this bill would be acceptable to bankers?

Mr. ECKELS. The provision of the bill as to the issuing of notes against assets has been more than once advocated by conventions. That was the basis of the plan which is known as the Baltimore plan, which was presented by a convention of bankers; but as to the feature of the deposit of the greenbacks, that has never been passed upon by a convention. It was, however, embodied in the bill which was presented by the Secretary of the Treasury two years since.

Mr. NEWLANDS. To what extent, assuming that the provisions of this bill are accepted, not only by the national banks, but by the State banks of the country, and taking into consideration the present conditions only, and not future enlargement of bank capital, to what extent can currency be issued under this law?

Mr. ECKLES. That estimate you would have to make by taking the amount of the present banking capital and figuring the percentages

provided by Mr. Walker to be deposited, of Treasury issues—when I use that term I embody all the paper issues of the Treasury—and the gold and silver provided to be deposited by these banks. That is a mathematical calculation.

PRESENT BANKING CAPITAL OF THE UNITED STATES.

Mr. NEWLANDS. Do you know to-day what the total amount of bank capital in the United States is?

Mr. ECKELS. The total capital of all the banks, or at least of almost 10,000 banks of the country, as shown by the last report, was $1,049,371,724. That is on page 19 of my annual report. There are in addition to that a number of banks, about 3,000 more, most of them private banks, the capital of which I have not. Then there was a surplus, $698,948,536.

Mr. NEWLANDS. What are the limitations with reference to capital and reserves placed by this act upon the issues of bank currency?

Mr. ECKELS. That you will have to find by consulting the bill. I do not carry in mind the distinctive provisions of it.

Mr. NEWLANDS. The purpose of this is to get at what amount of bank currency can be issued.

Mr. ECKELS. You will find the proposition set forth on page 8, section 5.

Mr. NEWLANDS. You have never made an estimate of the total amount?

Mr. ECKELS. Of what would be absorbed? No.

THREE KINDS OF CURRENCY PROVIDED.

Mr. NEWLANDS. As I understand it, there are three kinds of bank currency provided for by this act; first, legal-tender notes, with greenbacks; the other reserve notes, and the other emergency notes. Is that correct?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Under this act, leaving out the emergency notes for the present, which notes would be greater in amount, the legal-tender notes or the reserve notes?

Mr. ECKELS. That would depend on how much reserve is held by the banks, but I should judge that the amount of reserve notes would be larger than the amount of legal-tender notes.

GOVERNMENT AS A REDEMPTION AGENT.

Mr. NEWLANDS. Now, as to redemption, Mr. Eckels, do you understand that under this act redemption has to be made by the banks themselves, or by the Government as the agent of the bank?

Mr. ECKELS. I understand that the banks are to furnish the gold to the Government, together with whatever else is provided as a means of redemption, and that the Government itself, as it does now, acts only as an agent.

Mr. FOWLER. As it does for national-bank notes?

Mr. ECKELS. Yes; as it does for the national-bank notes.

Mr. HENDRICK. I would like to ask one question there. I understood you to say the other day that one of the chief sources of trouble now arises from the fact that the Government is constantly called upon to redeem these legal tenders, and that whenever that is the case the public are aware of that fact; that that very knowledge on the part of

the public creates a distrust and a disturbance. Now, would not that still be the case under Mr. Walker's bill; if the money—the gold—is to go from the banks into the Treasury, would not the public always know when there was a deficiency and when there had been a demand on the banks by the Treasury for gold?

METHOD OF REDEMPTION NOT CHANGED.

Mr. ECKELS. No; the difference is, in the one instance the Government itself has to supply the gold by the limited means which the Government has in its power, and in the redemption which is provided for, while under Mr. Walker's plan the banks supply that gold. For example, there is no one ever disturbed now about the current redemption of bank notes, because the banks supply a fund to the Government and the Government simply acts as the agent, and I do not see any difference between the method of redeeming the bank notes under the provision of this bill and the present method of the redemption of bank notes. Under the present method the redemption of bank notes does not disturb the business of the country at all. It is the redemption of the notes for whose redemption the Government itself has to supply the gold that creates a disturbance.

TREASURY AS AN AGENT OF BANKS.

Mr. BROSIUS. Is it speaking correctly to say that the Treasury or the Government acts as the agent of the banks?

Mr. ECKELS. I think that is what it does.

Mr. BROSIUS. If there is an agency, that implies a principle with the power to constitute an agent; but in this case the law declares that the Treasury shall do so and so, and that the banks shall do so and so, and it does not seem correct to say that the Treasury is the agent or is inferior to the banks, and carrying out the banks' direction is an agency.

Mr. ECKELS. If technically it is not correct, it is in fact, because that is all the Treasury does. It takes this money which the banks supply and pays it out.

Mr. NEWLANDS. Are the banks under this act compelled to make redemption over their counters at all?

Mr. ECKELS. I think there is a provision to that effect. The provision is that notes shall be redeemed in lawful money at the bank counters.

Mr. NEWLANDS. Let us refer to that section now.

Mr. HILL. On page 21, beginning at section 37, the subject of redemption and maintenance of reserve will be found. Section 39, I think, is the one you specially refer to—38 and 39.

Mr. NEWLANDS. Do you understand that under section 39 of the Walker bill the bank is compelled to make redemption of its notes?

Mr. ECKELS. Yes; that is my understanding. I was under the impression that there was a distinctive provision on the subject.

Mr. FOWLER. There is some section that provides it shall be in silver or in these notes, but that is all there is to it.

MAINTAINING GOLD REDEMPTION OF NOTES.

Mr. ECKELS. Whether or not there is a provision, I think there should be a provision that the banks should hold themselves ready to redeem their own notes at their bank counters if necessary.

Mr. NEWLANDS. In what?

Mr. ECKELS. In gold.

Mr. NEWLANDS. In gold alone?

Mr. ECKELS. I would not permit any bank to issue notes if it did not stand ready to redeem in gold, if the man who held the note wanted gold.

Mr. NEWLANDS. But you are not prepared to say that this bill provides for such gold redemption?

Mr. ECKELS. I think it provides that the ultimate redemption shall be in gold, and there may be a current redemption in something else, but there is a provision that the bank at all times has to maintain the parity of the various forms of money, which is simply a way of indirectly saying that it must maintain gold payments.

Mr. NEWLANDS. I will bring you to that section—section 50, I believe that is. What is your construction of that section?

Mr. ECKELS. My construction of that section is that it means the maintenance of gold payments of notes.

Mr. NEWLANDS. Section 50 is as follows:

SEC. 50. That any national-banking association that fails to keep, use, and pay out its silver coin and gold coin and currency notes so as to keep all three kinds of money at a parity each with all the others shall be deemed to have failed to pay in coin or coin certificates on demand the greenbacks and reserve notes or other notes signed and issued by its officers.

Now, I ask you what your construction is there as to what would be required in order to maintain the parity?

Mr. ECKELS. My construction of that section would be the construction I place upon the present duties, under existing law, of the Secretary of the Treasury—that the parity of the moneys in circulation must be maintained, and that if anybody wants gold it is the duty of the Government to pay gold. What Mr. Walker's construction is I can not say, but that is the construction I would place upon it.

The CHAIRMAN. That is my construction. It means that the banks shall maintain it just as the Government does—take the place of the Government.

Mr. NEWLANDS. Then, according to your view, that would require gold redemption by the banks of silver coins, as well as of the notes of the banks, whether legal-tender or reserve notes, just as redemption is now made of the greenbacks by the Treasury Department?

Mr. ECKELS. Only to the extent, Mr. Newlands, that the banks had deposited and the Government had accepted these various forms of credit currency by the banks. It would never redeem any notes not issued by the banks.

Mr. NEWLANDS. Only its own notes?

Mr. ECKELS. Only its own notes.

Mr. NEWLANDS. And the Treasury Department has to redeem the notes of all banks in gold?

Mr. ECKELS. It would redeem all notes that the banks issued, but the redemption is to be made out of a fund provided by the banks, not by the Government—that is, the current redemption—and if there was a failure of the bank to provide that fund for current redemption purposes, then the bank would be declared insolvent and its assets taken to first pay its obligations to the Government, in the meantime the Government, under its guarantee, making these redemptions of the notes of the failed bank out of the Government's fund.

Mr. NEWLANDS. Do you understand that this action would give the holder of the bank note the option to demand from the bank the gold or silver, or would the bank have the option, assuming that in the

markets of the country they had an exchangeable value, and that one was not at a discount as measured in the other?

Mr. ECKELS. I think the holder of the note would have the option. I believe that would be an element entering into the contract between the bank and the holder of the note, just as that element enters into the contract between the Government now and the holder of the demand obligation of the Government, which reads payable in coin.

Mr. NEWLANDS. Is that correct, according to your idea, Mr. Walker?

The CHAIRMAN. The holder of the note has a right under this contract to have his money kept at a par with gold, and he would not have the right to demand gold. That would be with the option of the bank; but if the bank refused gold in such manner as to put gold at a premium, then the bank would be insolvent; just as the Bank of France or the Bank of Germany do to-day; you can not get gold there unless your business requires it.

Mr. ECKELS. Except as is paid a very slight expense, which it costs the Bank of France to collect it together. This payment is as an agency fee.

The CHAIRMAN. Certainly.

Mr. NEWLANDS. Then your construction differs from the author of the bill as to the meaning of this section?

Mr. ECKELS. To the extent that I do not think you do maintain the parity of the moneys unless you pay the money out that the man who holds the note wishes to be paid to him.

Mr. NEWLANDS. Whereas Mr. Walker contends that so long as gold and silver have an interchangeable value in the country and by the action of the banks silver is not put at a discount, the bank has the option of paying in either gold or silver; and if by its action silver is put at a discount or gold at a premium, then the bank must pay in gold or be guilty of an act of insolvency.

Mr. ECKELS. But the question of the exercise of the option could not arise as long as these dollars were at a parity and were interchangeable without loss to either party. If, however, circumstances did arise under which these dollars of gold and silver were not interchangeable without loss, the bank would not have an option under a proper system, but the note holder would have the right to demand the metal he desires.

The CHAIRMAN. That is my position exactly.

Mr. ECKELS. That he would have a right to demand that these notes be paid in that metal which sustains itself, being gold.

Mr. NEWLANDS. But I understand you to contend that the same construction should be given to the parity clause of this bill as is given by the Secretary of the Treasury to the parity clause in the Federal law.

Mr. ECKELS. That is the construction that I would place upon it.

Mr. NEWLANDS. Then, according to that, redemption in silver or gold at the option of the holder would be required, even before they had parted as to interchangeable value, would it not?

Mr. ECKELS. Yes; if any man had a note and wanted it redeemed in gold, he ought to be entitled to demand of the bank that he be paid in gold.

Mr. NEWLANDS. So that would be your construction of this section?

Mr. ECKELS. Yes.

Mr. VAN VOORHIS. In other words, refusal to pay gold would of itself work the differentiation.

Mr. NEWLANDS. Now, Mr. Comptroller, what construction do you put upon section 7, which reads as follows:

That no banking association shall plead in defense in any action brought against it that any note issued by it is a United States legal-tender note.

Mr. ECKELS. I suppose that is to prevent the bank from taking advantage of making a legal tender of its own notes, largely.

Mr. NEWLANDS. But that defense can be made by a bank as to a note issued by any other bank.

The CHAIRMAN. That is it exactly.

Mr. ECKELS. Yes.

EFFECT OF H. R. 171 ON SILVER.

Mr. NEWLANDS. Now, Mr. Eckels, we will assume that this law goes into operation—that it is accepted by the banking sentiment of the country—that the greenbacks, Treasury notes, and silver certificates are imprisoned, and that bank currency, either legal-tender notes or reserve notes, is issued. Where, under those conditions, would the silver in the country be—the silver that is now in the Treasury of the United States?

Mr. ECKELS. Well, if the silver certificates are used as a part of your basis of note circulation, it would be in the same position that it is now—the holders of the silver certificates would be entitled to the silver standing back of those certificates.

Mr. NEWLANDS. When you speak of holding silver certificates in reserve, you mean the reserves of the banks?

Mr. ECKELS. The bill provides that for the issuance of these greenback notes there shall be deposited coin, silver, and silver certificates, and the bank to comply with that provision must first obtain the silver certificates, and those silver certificates would transfer the ownership of so many silver dollars into the banks, which representatives of ownership would be deposited with the Government.

Mr. NEWLANDS. So, after such silver certificates go into the possession of the Government they are destroyed, under the provision of this act?

Mr. ECKELS. Yes, they are destroyed; but destroyed during the period of time in which they are there imprisoned, and after that, if I understand it, it is the design of the bill to substitute for so much of them as are deposited, gold coin, by the ultimate redemption of the notes.

Mr. NEWLANDS. Substitute where?

Mr. ECKELS. To the holders of the certificates of the greenback notes issued.

Mr. NEWLANDS. But I understand the purpose of this act is to imprison first all this credit money of the United States excepting, perhaps, silver.

The CHAIRMAN. What do you mean by imprison?

Mr. NEWLANDS. That is the word used by Mr. Eckels.

The CHAIRMAN. After the bank takes it and pays it in circulation, it is just the same as now.

Mr. ECKELS. The basis of your issue, Mr. Walker, as I understand it, is that you have the banks deposit so much of these notes with the General Government.

The CHAIRMAN. They destroy them and put new notes in circulation. It is not imprisoned at all.

Mr. NEWLANDS. Now, we will assume that all the greenbacks and the Treasury notes and silver certificates are gathered up in this way by the banks and are deposited with the United States Government as a basis of currency. Then I understand you to say that all that paper would be destroyed by the Government?

Mr. ECKELS. Yes; but other paper issued in lieu of it through the bank.

Mr. NEWLANDS. But paper issued in lieu of it would be bank paper.

The CHAIRMAN. But legal-tender notes just the same.

Mr. ECKELS. But right there, Mr. Newlands, I take it the expectation of Mr. Walker is that that section of the bill which provides that no notes shall be issued below $3, by the banks or by the Goverment, will release a large amount of silver coin dollars which the people would be willing to carry around for use in daily transactions.

Mr. NEWLANDS. What amount would that release?

Mr. ECKELS. I suppose to the extent that one and two dollar bills are in circulation now.

Mr. BROSIUS. Under this bill, when it comes in to complete the effective operation, there would be no silver certificates.

Mr. NEWLANDS. Can you tell me to what extent the place of one and two dollar notes would be taken by silver?

Mr. ECKELS. Mr. Walker stated that the Treasury report of 1895 shows there were one and two dollar bills to the extent of $74,668,926 in circulation.

Mr. NEWLANDS. That would leave in the United States, in existence, about $400,000,000 of silver coin and bullion?

Mr. ECKELS. Yes.

SILVER FORCED INTO CIRCULATION.

Mr. NEWLANDS. Taking into consideration the silver now in actual circulation—the silver that would be forced into actual circulation by the retirement of the one and two dollar notes—we would have a balance of silver somewhere in the country of about $400,000,000?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Where, under the provisions of this bill, would that silver be?

Mr. ECKELS. So much of it as is represented by Treasury notes and silver certificates in sums above $3 would, to the extent that the banks went into the system and took out circulation, be locked up, and instead these greenback issues provided for in Mr. Walker's bill would take their place.

Mr. NEWLANDS. Where would it be locked up?

Mr. ECKELS. It would be locked up in the Treasury, subtreasuries, or wherever provided.

Mr. NEWLANDS. Is there any provision——

Mr. ECKELS. It provides that the banks shall deposit with the Treasury of the United States under section 5, page 8.

Mr. NEWLANDS. Shall deposit these silver certificates and Treasury notes—greenbacks—is that it?

Mr. ECKELS. Section 5 provides as follows:

SEC. 5. That every association organized under this act, before it shall be authorized to commence a banking business, shall deliver to the Treasury of the United States United States legal-tender notes, including Treasury notes, or coin, or coin certificates, or mixed, as provided in section six, in amounts as follows:

Section 6 provides what the percentage shall be of each.

Mr. NEWLANDS. That is true, so far as the Treasury notes, coin, coin certificates, or mixed that are surrendered by the banks as a basis of the issue of currency. Now, after that surrender takes place, and after the silver certificates and the Treasury notes and the greenbacks are destroyed, where is the silver which these silver certificates and Treasury notes represent?

Mr. ECKELS. It is just where it is now.

Mr. NEWLANDS. Where it is now—in the Treasury of the United States?

Mr. ECKELS. Yes.

Mr. NEWLANDS. Under this bill would it remain in the Treasury of the United States?

Mr. ECKELS. I think that it would. Such is my understanding, at least.

Mr. NEWLANDS. After the bill went into operation and its provisions were accepted by the banks, I understand Mr. Eckels to say that the silver now standing back of the Treasury notes and the silver certificates—which would be destroyed in case the bank bill goes into operation—would remain in the Treasury.

The CHAIRMAN. How, when the bill provides a note shall be paid out for every silver certificate and note destroyed?

Mr. NEWLANDS. I was asking Mr. Eckels his construction of this.

Mr. ECKELS. I take it that the Treasury notes and the silver certificates and the coins, etc., that the bill provides as security for part of the circulation shall be given to the United States as security for greenback notes—shall remain with the Treasury of the United States.

The CHAIRMAN. No; it is paid in as free money in the Treasury, to be used in the Treasury.

Mr. ECKELS. It does not make any difference whether it is a special fund or among the free moneys; but it can only be gotten at by the redemption of something.

The CHAIRMAN. Oh, no; the silver is paid out when the silver certificates that were issued for it are destroyed.

Mr. NEWLANDS. Is that your understanding of the bill, Mr. Eckels, that this $400,000,000 of silver which formerly backed silver certificates and Treasury notes, will go into the general fund of the Treasury to be paid out in the payment of the current obligations of the Treasury Department?

Mr. ECKELS. Mr. Walker makes that explanation of the bill.

The CHAIRMAN. That is the text of the bill—not that the Treasury shall pay them out, but he shall destroy the certificates and pay out in dollars; that is, pay the silver right out.

Mr. ECKELS. But as I understand it, this stands back of the Treasury of the United States as a guaranty.

The CHAIRMAN. Not until it is paid right in. The silver certificates are destroyed and the gold certificates are destroyed. That pays the gold and silver out, instead of putting the certificates into circulation again. Every certificate that is paid in is destroyed and that leaves the money free in the Treasury to be paid out. That is what the bill says. It does not contain the words "free to be paid out," because that is not necessary.

Mr. NEWLANDS. So I understand that when the gold certificates and the silver certificates are surrendered to the United States Treasury the banks which enter those certificates take out the coin?

The CHAIRMAN. Yes, sir.

Mr. NEWLANDS. Then they also take out legal-tender notes and reserve notes in addition?

The CHAIRMAN. They take out legal-tender notes, $100 for every $100 of lawful money they pay in, simply for the purpose of identifying what bills each bank shall redeem.

Mr. NEWLANDS. Then you are mistaken in the statement that this $400,000,000 of silver would remain in the Treasury?

Mr. ECKELS. Under Mr. Walker's explanation, and he of course knows better the provision of the bill than I do.

Mr. NEWLANDS. I was asking your construction of this act, because we wanted to know your views with regard to it.

Mr. ECKELS. What section is that, Mr. Newlands?

Mr. NEWLANDS. Look at section 21, Mr. Eckels, if you please.

Mr. ECKELS. Yes.

Mr. NEWLANDS. Do you understand that under that provision the silver backing the silver certificates which are surrendered to the Treasury, and by the Treasury Department destroyed, is to be turned over to the banks surrendering the silver certificates, or is it to remain in the Treasury of the United States?

The CHAIRMAN. It is to remain free money in the Treasury, paid out on certificates or paid out for any dues.

Mr. ECKELS. My understanding was that it would remain in the Treasury, whether it went into a special fund or whether it went into a general fund—that it still remained as a security.

The CHAIRMAN. Have you read the language—that is not it at all.

Mr. ECKELS. For these greenback notes issued on which the Government makes its guaranty?

The CHAIRMAN. They are destroyed and all the money that these certificates are issued for are free moneys in the Treasury.

Mr. ECKELS. But do they still remain, Mr. Walker, to be used for whatever purposes the Treasury sees fit?

The CHAIRMAN. Certainly; the coin—gold or silver.

Mr. ECKELS. What I am trying to say is upon the point of the deposit of the certificates—the silver or the gold for which those certificates are issued. Is it not turned over to the banks?

The CHAIRMAN. Oh no, unless they exchange it.

Mr. ECKELS (continuing). But remains in the Treasury?

Mr. NEWLANDS. It remains in the Treasury.

Mr. ECKELS. Mr. Walker says that it is a provision of his bill that this is to remain as free money in the Treasury to be used for any purpose possible, but the banks do not have the greenbacks to which they are entitled under the bill, and also the gold or the silver for which those greenbacks stand, any more than they have the silver certificates now and the silver coin standing back of them.

Mr. NEWLANDS. But as to those greenbacks—their redemption is backed by the banks, is it not, and not the Government; that is, the bank is the obligor and not the Government.

Mr. ECKELS. The current redemption of them; yes.

Mr. NEWLANDS. Well, then, how, in that case, does the bank get an equivalent for the silver certificates which it has surrendered? The bank notes, as I understand it, are not Government notes; they are bank notes, and the bank is the obligor. Now, the bank, the owner of the silver certificates, surrenders those silver certificates and gets what—simply its own notes?

Mr. ECKELS. I judge that the expected advantage to the banks under the plan would be this, that they deposit 100 cents worth of paper, gold or silver, and they get instead of that a bill calling for 100 cents. They obligate themselves to currently redeem that obligation in gold, because of the additional profit of having given to them 100 cents against a security worth 100 cents, instead of being as now, given 90 cents for a security in the shape of a bond worth 110 or 115 cents. In addition, for doing this they are permitted to issue a certain amount of notes against assets, without a deposit of security. I suppose that is the way the estimate has been made as to the profit upon these notes.

CURRENT AND FINAL REDEMPTION.

Mr. NEWLANDS. Do you distinguish at all between current redemption and ultimate redemption as to the obligor?

Mr. ECKELS. Yes.

Mr. NEWLANDS. With reference to the current redemption, the bank undertakes to do that; who undertakes the ultimate redemption of the notes?

Mr. ECKELS. The notes known as greenback notes are simply the substitution of an obligation which now rests upon the Government, and which the Government is bound to ultimately redeem, so that the Government is only compelled to redeem those notes when the banks go out of existence, instead of being compelled to redeem them both when it goes out of existence and currently. The reserve notes are currently redeemed by the bank and only ultimately redeemed by the Government in case the bank fails, at which time the guaranty of the Government intervenes, and the Government recoups itself for having taken care of the ultimate redemption of the reserve notes by having the assets of the bank placed at its disposal for the payment of such notes.

Mr. NEWLANDS. I understand you now. Then there is a difference as to the ultimate redemption between the reserve notes and the ultimate redemption of the greenbacks under this act?

Mr. ECKELS. No; except——

Mr. NEWLANDS. That is to say, that when the end of that note is reached, the Government itself redeems the legal-tender note without calling upon the bank in anyway, while as to the reserve notes the Government redeems them, but recoups itself with that redemption out of the bank assets.

Mr. ECKELS. It redeems the reserve notes only of banks which fail. The other notes the bank, if solvent when it goes out of business, redeems, or when it does not wish those notes to be in issue any longer it redeems them.

Mr. NEWLANDS. Does the bank redeem its legal-tender notes when it goes out of business?

Mr. ECKELS. Oh, no; as to the greenback notes, as I understand it, the ultimate redemption rests upon the Government.

Mr. NEWLANDS. Let us use the words legal-tender notes.

Mr. ECKELS. The legal-tender notes, as I understand it, are currently redeemed by the banks and ultimately redeemed by the Government, because they are an already due obligation of the Government. The reserve notes are currently redeemed by the bank and ultimately redeemed by the bank, excepting in the case of the failure of the bank, when the Government intervenes and redeems these notes and recoups itself from the failed bank's assets.

Mr. NEWLANDS. So, by that process, the silver becomes and the silver certificate becomes free coin in the Treasury and can be paid out by the Government in its current expenses?

Mr. ECKELS. Yes; the benefit under Mr. Walker's explanation, I believe, is figured that what the Government receives outside of not having to make current redemption, it has this much fund of money to use for its current needs, whereas now it can not have any daily benefit of the bonds, which are deposited as security.

Mr. NEWLANDS. What would the effect of that process be; would the Government pay out this silver in its current expenditures, and

thus get it into circulation in the country, or would it be retained in the Treasury of the United States?

Mr. ECKELS. That would depend a great deal upon the condition of business and the manner in which the Treasury Department was conducted. There is now, for instance, deposited with the Secretary of the Treasury amounts of money which the banks put there, which are used as current funds, and I suppose it is paid out at times as needed.

Mr. NEWLANDS. This silver, as I understand it, would be the absolute property of the Government by this changed process?

Mr. ECKELS. Yes; except——

Mr. NEWLANDS. Instead of being the property of the holder of the silver certificates it would be free silver in the Treasury, liable to be paid out at any time in its expenditures?

Mr. ECKELS. But with the Government's guarantee that it would take care of that upon the basis on which these notes are issued.

Mr. NEWLANDS. That would mean the Government guaranteeing to maintain the parity of that silver with gold; is that it?

Mr. ECKELS. No; the Government would simply guarantee ultimate redemption in gold, not its current redemption in gold.

Mr. NEWLANDS. Of the silver coin itself?

Mr. ECKELS. Yes.

Mr. NEWLANDS. In its current redemption?

Mr. ECKELS. In its current redemption.

Mr. NEWLANDS. How do you distinguish between current redemption and ultimate redemption? Suppose the Government of the United States owes me for service $100 and pays me $100 in silver coin. Do you regard it as current redemption or ultimate redemption if I take it to the Treasury and demand gold?

Mr. ECKELS. I regard it as ultimate if the notes are changed and issued.

Mr. NEWLANDS. It is not the end.

Mr. ECKELS. Take silver coin. If that is put in circulation again it is simply current redemption.

Mr. NEWLANDS. I do not think that we understand each other. We will assume now that the banks have surrendered the silver certificates and that the silver coin is free in the Treasury—$400,000,000 of silver—and that the Government would pay me $100 in silver for services rendered. Now, you say the Government does not have to make current redemption, but is to make ultimate redemption of that silver. I ask you what constitutes the difference. Suppose I take that $100 to the Treasury of the United States and demand gold. Do you call that current redemption or ultimate redemption?

Mr. ECKELS. Well, I suppose it would be ultimate redemption until the silver was issued again.

REDEMPTIVE MONEY DEFINED.

Mr. BROSIUS. Can there be any such thing as ultimate redemption of money that is itself redemptive money; in other words, is it correct speaking to say that a silver dollar has ultimate redemption where it is exchanged for gold, a silver dollar itself being redemptive money—absolute money?

Mr. ECKELS. Yes; it is a correct thing to say. As a matter of fact, it is not redemptive money, because it does not stand by itself—is not supported by itself. It obtains value from the gold with which the Government maintains it at a parity.

Mr. BROSIUS. If the law says it can be used for redeeming other money it is redemptive money, isn't it?

Mr. ECKELS. Yes; but if the law at the same time says the Government is obligated to maintain the parity of that metal with some other metal it is not, correctly speaking, redemptive money.

Mr. BROSIUS. That is effected by simply exchanging the gold dollar for the silver dollar; but the silver dollar takes the place of the gold dollar in the Treasury and goes out in the payment of the expenses of the Government. It is an exchange rather than a redemption. Redemption carries with it the idea that the thing redeemed is done for; but the silver dollar is not done for at all. It is absolute money.

Mr. ECKELS. I think the term current redemption is used, for instance, as Treasury notes are taken in and reissued.

Mr. BROSIUS. I was referring more especially to ultimate redemption. I think, popularly speaking, for current redemption that would be all right.

SILVER REDEEMED IN GOLD.

Mr. NEWLANDS. Then your theory is that if the Government, in the payment of its current obligation or expenses, paid out this $400,000,000 in silver and got it into general circulation, and it was deposited in the banks, the banks could present that silver to the Treasury of the United States and demand gold?

Mr. ECKELS. I think the banks would deposit it and take out these, if they wanted to take out additional circulation on it.

Mr. NEWLANDS. They could take out additional circulation, there is no doubt of that, but could they not also present that silver to the Treasury and demand gold?

Mr. ECKELS. I have no doubt that if the metals were not maintained at a par the Government would be obliged to give them gold.

Mr. NEWLANDS. But apart from the question whether they would give them gold or not, under your construction of the parity act, would not the United States Treasury be compelled to redeem this silver coin in gold whenever the banks presented it?

The CHAIRMAN. They do not present it, they can not present it, under the bill.

Mr. ECKELS. I think it would be compelled to redeem it—that is, I think the Government would be compelled to redeem it in gold.

Mr. NEWLANDS. Then you would do away with this endless chain?

The CHAIRMAN. How, under my bill, does the bank acquire any right to present silver when the bill itself makes it an offense if the bank does not keep it at a parity with gold? I do not see how they could take it from the Government.

Mr. NEWLANDS. I am assuming that parity is maintained; that there is no difference whatever in the value of gold or silver in the United States, and that the banks have so much silver and present it to the Treasury of the United States.

Mr. ECKELS. If the parity is maintained there is no danger of these dollars being presented to the United States Treasury, and they will be presented to the banks in the individual localities, instead of having to be sent to Washington or to San Francisco.

Mr. NEWLANDS. You say there will be no danger of this $400,000,000 in silver, or any part of it, being forwarded to the Treasury of the United States for redemption in gold. Assuming that, I ask you whether the banks would not have the right to present that silver to the Treasury of the United States and demand redemption in gold.

Mr. ECKELS. Mr. Walker says that under the penalties he has provided in this bill, while they might have the right, the penalties attaching to it would not make them wish to exercise it.

The CHAIRMAN. I say under the bill that would not be done. They would have no right to go to the Government whatever, because the bill makes it an act of suspension if they themselves do not maintain the parity between gold, silver, and paper.

Mr. NEWLANDS. I am now endeavoring to get at the construction of this act by the Comptroller of the Currency, and I would like to have his understanding regarding this.

Mr. ECKELS. I have no doubt that all the silver which the Government has issued, not being taken care of by the banks, the Government would be responsible for.

Mr. NEWLANDS. What do you mean by responsible for it?

Mr. ECKELS. Compelled to keep it at its parity with gold.

Mr. NEWLANDS. How?

Mr. ECKELS. They would have to provide the means for doing it.

Mr. NEWLANDS. To what means do you refer?

Mr. ECKELS. Well, they would have to have gold in the Treasury, but that question would not arise if the things could be accomplished as provided by Mr. Walker, putting upon the banks the necessity of continually maintaining the parity of these metals. The whole thing would turn upon the ability of the banks to maintain the parity of these metals. There is this to be remembered in connection with this matter, that the stock of gold will continue to increase in this country, while, unless some new provision of law is made, the stock of silver will not.

Mr. NEWLANDS. I understand, under section 50, that any national-bank association that fails to keep, use, and pay out its silver coin and gold coin and currency notes so as to keep all kinds of money at a parity each with all the others, shall be deemed to have failed to pay in coin or coin certificates on demand the greenback and reserved notes or other notes signed and issued by its officers, and that would, as I understand it, constitute an act of insolvency. Is that correct?

Mr. ECKELS. The act of insolvency arises from its not redeeming its notes, either in gold or equivalent to gold.

Mr. NEWLANDS. It says it shall be deemed to have failed to pay in coin.

Mr. ECKELS. Is there a further provision of the act explaining what is meant by coin payment?

The CHAIRMAN. This section 50 explains what is meant by coin payment. It says they shall redeem in coin, because while we have silver we can not make any more stringent provision than that. Then section 50 is put in. That is if the bank refuses to pay gold it puts gold at a premium, and you have to buy it in the market, then the bank has failed to redeem in coin; but if the payment of silver to an individual does not put gold at a premium, then no action can be maintained against the bank for refusing to pay gold. That is the way it is in Europe, Germany, and France.

Mr. NEWLANDS. Say a bank has $100,000 only in gold and $200,000 in silver, and the fear is by tendering silver to the man who demands redemption it may put gold at a premium. What is to prevent that bank from taking its silver to the Treasury of the United States and demanding gold and thus getting gold for redemption?

Mr. ECKELS. The fear of the penalty that is provided by the provision of the act if it does not maintain the parity of the metals.

Mr. NEWLANDS. As I understand it, it is maintaining the parity of the metals by that means. It is paying out gold, not silver, and it takes its silver to the Treasury of the United States and gets gold for it. Is not that maintaining the parity?

Mr. ECKELS. That is maintaining the parity, but the other thing would tend to break down the parity.

Mr. NEWLANDS. What, taking the silver to the Treasury Department for redemption in gold?

Mr. ECKELS. I think so.

Mr. NEWLANDS. Very well, then, if that is the case, why has not taking greenbacks and Treasury notes to the Treasury Department and demanding redemption in gold broken down the parity between greenbacks and Treasury notes and gold?

Mr. ECKELS. Possibly I should not have said parity. I should have said breaking down the credit of the Government.

Mr. NEWLANDS. Breaking down the credit of the Government, or——

Mr. ECKELS. And injuring the credit of the bank.

Mr. NEWLANDS. The credit of the Government would not be broken down if it redeemed its silver in gold, would it?

Mr. ECKELS. No, I do not think it would break the credit of the Government if it redeemed, but as I understand it——

Mr. NEWLANDS. The credit of the banks would not be broken if it got gold for silver and then tendered the gold in redemption of its obligation?

Mr. ECKELS. No, possibly I was in error in that. This is a matter that Mr. Walker should explain in detail. But it is the expectation on his part that by these various provisions of the bill which he has introduced such a parity would be maintained by the banks that the circumstances which you have inquired about would not arise. All the silver and the legal-tender paper issued in the manner provided by this act the Government would be obliged to take care of under its guaranty.

GEOGRAPHICAL LOCATION OF GOLD.

Mr. NEWLANDS. Can you tell from the reports that have been made to you where to-day most of the gold of the country is located? Have the Eastern banks more than the Western banks, or the Northern banks more than the Southern banks, of gold, proportionately?

Mr. ECKELS. You will find a full statement on this subject in my annual report for 1896, page 21. In order to make it a part of the record I wish that page to be taken as a part of my answer.

[Annual Report of the Comptroller of the Currency, 1896, p. 21.]

The total cash and the part thereof of gold and gold certificates held by reporting banks, in each geographical division is as follows:

Geographical division.	Total cash.	Amount of gold and gold certificates.
New England States	$35,689,272	$15,403,768
Eastern States	213,129,569	88,580,133
Southern States	29,086,601	9,558,183
Western States	109,584,645	56,410,427
Pacific States and Territories	25,634,762	19,605,830
Total	413,124,849	189,558,341

A comparison of the money holdings in these geographical divisions shows that the 829 reporting banks in the New England States held but $6,602,671 more total cash and $5,845,585 more gold and gold certificates than the 676 reporting banks in the Southern States, not including Missouri; the 1,275 banks in the Eastern States $103,544,924 more total cash and $32,169,706 more gold and gold certificates than the 2,434 banks in the Western States; the 676 banks in the Southern States $3,451,841 more total cash and $10,047,647 less gold and gold certificates than the 509 banks in the Pacific States and Territories; the 829 banks in the New England States $10,054,510 more cash and $4,202,062 less gold and gold certificates than the 509 banks in the Pacific States and Territories. It has been deemed necessary to indicate the location of banks reporting and not reporting in order to give a proper measure by which to estimate the amount and character of cash of banks not reporting. It is a fair estimate to be drawn from reports received, and in view of their general distribution and character, and the proportion of cash of those reporting to total cash held in all such banks, that as 2,265, or 24.4 per cent of all banks and companies other than national banks held $34,484,737 in gold coin and gold certificates, the whole number of banking institutions and companies in operation in the United States on July 1, other than national, viz, 9,260, held on that day in gold coin and gold certificates $140,939,807. Adding to this amount $161,853,560, the total gold coin and gold certificate holdings of the national banks on July 14, as being the same as held by all of them on July 1, the total gold and gold certificate holdings of the banks of the country on that day was $302,793,367.

Mr. NEWLANDS. We all know that the Pacific States and Territories have more gold proportionately than any other States because they deal almost exclusively in metallic money.

Mr. ECKELS. On pages 20, 21, and 22 of the report will be found the distribution geographically of the cash and the classification of the cash of the banks reporting to me.

Mr. NEWLANDS. Assuming that the $400,000,000 of silver now in the Treasury becomes free and is paid out in Government expenditure, I ask you whether, in your judgment, that silver would land principally in the Eastern banks or in the Western or Southern banks.

TENDENCY OF MONEY TO CONGEST IN LARGE CENTERS.

Mr. ECKELS. Well, at the present there are $15 in gold held in the banks of the silver-producing States to $1 in silver. The tendency of all money is to congest in large centers.

Mr. NEWLANDS. Where was that $15 of gold to $1 of silver?

Mr. ECKELS. In the silver-producing States. That is the proportion.

Mr. NEWLANDS. Leaving out the Pacific Coast and the mining States, which are almost exclusively upon a metallic basis, and considering only the Eastern States, the Middle Western States——

The CHAIRMAN. You mean a metallic circulation.

Mr. NEWLANDS. Yes, sir. Taking the States I have named, and the Southern States, where do you think this silver would be more likely to drift?

Mr. ECKELS. I think there are more silver and silver certificates probably in general use in the Southern and Middle Western States than there are in the East.

Mr. NEWLANDS. Is there not a tendency of gold to collect in the great cities—the reserve centers?

AMOUNT OF GOLD IN SMALL CITIES.

Mr. ECKELS. No; except to the extent that all moneys collect in the reserve cities. I think it is rather surprising the amount of gold that is in the smaller places as shown by the returns.

Mr. NEWLANDS. You do not find a greater disparity between silver and its paper representatives on the one hand and gold on the other in the country banks than in the great city banks?

Mr. ECKELS. No; not to the extent generally supposed. I was surprised when I found from this investigation the relative proportion. Of course in the East, where the advantage of the longer time to accumulate occurs and where there is not the same need for expenditures for improvements in the way of buildings and that sort of thing, there is naturally more money and probably more gold—always excepting upon the Pacific Coast, where it is used in daily transactions.

Mr. NEWLANDS. Now, as between a bank which sought to collect the gold and pay out its gold to its depositors and in current redemption, and a bank which happened to have the bulk of its money in silver and paid out its obligations in silver, do you think there would be any bias in the public mind as against the gold in favor of the other?

Mr. ECKELS. I think each individual bank, if it had the responsibility placed upon it, would take care of itself—I think competition would regulate that.

Mr. NEWLANDS. Competition would induce the banks that wanted to get upon the best basis, to maintain gold payment, would it not?

Mr. ECKELS. Yes; and the other, to maintain its patronage, would do the same thing.

Mr. NEWLANDS. So they would both be competing for gold and both having a tendency to reject further deposits of silver, would they not?

Mr. ECKELS. No. Under the provision of this bill it is expected that that could not be done, that the banks organized under it would have to maintain the parity between these metals. I have no doubt they would take deposits of all moneys and representatives thereof.

Mr. NEWLANDS. There would not be any tendency to discourage the deposits of silver?

Mr. ECKELS. Hardly, if the provisions of that bill were carried out and could accomplish the things which the author expects the bill will accomplish. People are, under normal conditions, as ready to accept silver certificates, silver and legal tenders, as they are gold.

Mr. NEWLANDS. You would expect, then, that under this act the existing amount of silver in the country could be maintained at a par with gold?

Mr. ECKELS. I think the United States, with a proper banking system, if the banks were given the privilege of issuing all the credit currency of the country, would probably be able to take care of $565,000,000 in silver.

Mr. NEWLANDS. And maintain its parity with gold?

Mr. ECKELS. Yes.

PRESENT AMOUNT OF SILVER CURRENCY.

Mr. FOWLER. What is the point of saying $565,000,000 of silver.

Mr. ECKELS. That is, as I remember it, the present amount of our silver currency. I do not think the country could take care of any more.

The CHAIRMAN. Is $565,000,000 the present amount of silver in circulation?

Mr. ECKELS. Yes; there is almost that amount. I include in that the Sherman notes. I think there is about that amount of silver.

Mr. NEWLANDS. Would you regard it as an advantage and strengthening of our monetary system if the commercial value of that silver were equal to its coinage value?

Mr. ECKELS. Only to the extent that we would not then have to worry about the parity between the two metals.

Mr. NEWLANDS. Do you regard that as much of a worry?

Mr. ECKELS. It has been a great source of worry in the last few years.

Mr. NEWLANDS. Is it a matter of worry now?

SILVER COINAGE AGITATION ENDED.

Mr. ECKELS. No; but simply for the reason that people seem to be pretty well satisfied that we have gotten to the end of the agitation for silver coinage.

Mr. NEWLANDS. Is it a matter of any worry as to the future—any anxiety as to the future? Do you fear at all that the Government will be called upon to make gold redemption as heretofore, and to issue bonds for that purpose?

Mr. ECKELS. I suppose that there might an occasion arise when it would be, but the prudent thing, it seems to me, is, when there seems to be no occasion to fear any such thing, to get rid of the means which makes it a possibility in the future.

Mr. NEWLANDS. Now, the ultimate cause of this worry is the disparity between the bullion value of silver and gold, is it not?

Mr. ECKELS. Yes; that the Government is continually called upon to give artificial value to a part of the money.

INTERNATIONAL ACTION ON SILVER.

Mr. NEWLANDS. If it were possible, by international action or national action, to so increase the use of silver as to restore that parity, would you regard it as a desirable thing, or not?

Mr. ECKELS. I do not see that it would add to the actual benefit of the people to have a larger use of silver. The only benefit would be——

Mr. NEWLANDS. I am addressing myself only to the parity now.

Mr. ECKELS. The only benefit would be that there would be removed the fact that a part of the money is artificial as to its value instead of itself carrying the full value which it purports to carry.

CONSTITUTIONALITY OF PROPOSED LEGAL TENDERS.

Mr. BROSIUS. I would like to know whether, in your judgment—I do not know that you are a lawyer, but I presume you are—the issue by banks, under the conditions proposed in the bill now before us, of legal-tender notes, would be constitutional.

The CHAIRMAN. It doesn't provide for that.

Mr. ECKELS. The Supreme Court stretched the Constitution once, and I presume it could again.

Mr. BROSIUS. The plan proposed is, for the Government to issue to the banks legal-tender notes, which the banks shall issue. If you say these are issued by the Government they are in the same attitude as the present legal tenders, and, of course, they are constitutional. My point is, whether it is obnoxious to constitutional objections for the Government to authorize banks to issue legal-tender money.

The CHAIRMAN. The bill doesn't say that they shall print and deliver to the banks the legal-tender notes, or, in the language of the bill—

> That the Secretary of the Treasury is hereby authorized to issue United States legal-tender notes described in section 3 of the act of March 3, 1863.

Mr. BROSIUS. And the bank shall issue them. The present law authorizes the banks to issue money, but that is not a legal tender. It

is the same thing for the law to authorize the Government to supply these banks with paper money under this bill, but under this bill this money is legal tender. The point is, whether that is obnoxious to the Constitution or not.

Mr. ECKELS. I think if the Constitution was stretched so as to cover the greenbacks it would cover this.

DECISION OF THE SUPREME COURT.

Mr. FOWLER. Does not that decision that the Supreme Court rendered when the question was brought up as to the power to reissue immediately cover that, giving Congress a right to make anything a legal tender?

Mr. COX. It doesn't go that far.

Mr. ECKELS. I do not believe it is right, but it is the decision of the court, and it is just as effective for the purpose to be accomplished as though it was right.

Mr. BROSIUS. Could Congress, under the Constitution, make the present bank-note currency legal tender?

Mr. ECKELS. It did make the Treasury issues legal tender, and the Supreme Court upheld them. It says that they could make anything legal tender. I do not believe that is right.

Mr. COX. I agree with you, Mr. Eckels, that it is not right.

Mr. ECKELS. But it is the law.

STANDARD OF VALUE.

Mr. FOWLER. In your hearings here I have gathered that in your judgment the matter that to-day is causing more unrest and the source of more trouble than any other is the doubt about our national credit, and therefore the first object of a comprehensive measure would be to establish irrevocably the standard of value of this country.

Mr. ECKELS. That is the largest element.

Mr. FOWLER. Therefore that should be the consideration in any measure.

Mr. ECKELS. That has been established for sixty years.

Mr. FOWLER. But established irrevocably. I suppose that could be done. It is possible, is it not?

Mr. ECKELS. I am sure, Mr. Fowler, that it is thoroughly wise to emphasize the fact that the United States maintains the gold standard; and that fact is emphasized by the fact that it is made incumbent that all credit issues of the banks shall be redeemed in gold.

Mr. FOWLER. But is there anything in this measure that any more prominently fixes in the mind of the public that gold is the standard and that no other standard will be recognized, than exists to-day in the mind of the public?

Mr. ECKELS. I take it under the construction of the clause about maintaining the parity that that is the provision with which Mr. Walker sets forth the establishing of the standard.

Mr. FOWLER. But it would be no stronger than our present position unless you assume that the power of the banks is greater than that of the Government, would it not—its position is the same?

Mr. ECKELS. Yes; but the assumption is——

Mr. FOWLER. To that extent it does not fix it any more definitely in the public mind than it is now fixed, does it?

Mr. ECKELS. Except that it takes away the current redemption of these demand obligations.

Mr. FOWLER. They are left to the banks to be currently redeemed?

Mr. ECKELS. Yes.

Mr. FOWLER. Therefore the only difference is you have not added anything to the strength or the permanency of the gold standard except so far as you may assume, or I may assume, that the banks can more easily, more certainly, maintain redemption than the Government itself can?

The CHAIRMAN. I will admit that. You know they can do so; don't you know they can?

RETIREMENT OF LEGAL TENDERS.

Mr. FOWLER. I think I do. Now, in the second place, the next point, as I understand your remarks, that is of essential importance is that all the demand obligations of this Government should be retired. Is that true?

Mr. ECKELS. That is right.

Mr. SPALDING. But not now; that is what he says.

Mr. ECKELS. I said gradually.

Mr. FOWLER. The question is that that is the next thing. Is it your judgment that the effect of this measure, admitting that the Government would be bound to maintain the parity, as you have stated in answer to Mr. Newlands, and that this bill will virtually strengthen the situation of it or improve it——

Mr. ECKELS. The provision of the bill looking toward the imprisonment of the demand obligations of the Government I think would strengthen the situation. I said at the outset that my own view of the thing was not imprisonment but permanent disposition of them.

Mr. NEWLANDS. Mr. Walker contends that this does permanently dispose of them.

Mr. ECKELS (continuing). But Mr. Walker contends, and others contend, that that is not a practical thing. That is a matter that is not for me to determine. That is a matter which is for the members of the committee to determine, who are making the bill, and for Congress.

Mr. FOWLER. The point is this, and I think you answered that way—and I agreed with your conclusion—that the Government would have to maintain the parity of the metals if there were \$400,000,000 or \$500,000,000 in silver out, and as Mr. Newlands put it, if a bank had \$100,000 of gold and \$200,000 of silver and in order to strengthen its position it says "We want \$100,000 more gold," they take \$50,000 in silver to Washington or New York and say, "We want \$50,000 gold for this," and that might happen in the case of 1,000 banks at the same time. Do you not think that the Government would be found to respond to the request of those banks?

Mr. ECKELS. I will say frankly, Mr. Fowler, that I think that as long as there is a currency in circulation which does not maintain itself, there is always danger to the Government.

Mr. FOWLER. The point is this: That if the preponderance of the cheaper or the weaker money, metal or paper, passes beyond the point of saturation, which is simply that that meets its needs, that would naturally go back for redemption.

Mr. ECKELS. Every dollar that is out that is not needed will go back for redemption.

Mr. FOWLER. So if you actually absorb the silver in the channels of trade through the provisions made for its use, and the banks had a smaller amount of gold than silver, it would want to have silver to strengthen its position.

Mr. ECKELS. That is likely so, but that is a matter which Mr. Walker believes he has covered in his bill by——

Mr. FOWLER. That would be a silver chain instead of the greenback endless chain.

Mr. ECKELS. I do not think he anticipates such a thing would happen.

Mr. FOWLER. I say, would not that result—isn't that true?

The CHAIRMAN. I would like to have the Comptroller tell us how a man is going to take silver and ask redemption when the banks themselves are compelled to keep the silver at a parity with gold.

Mr. FOWLER. Where is he going to get it—where are the banks going to get it, except from the Government?

The CHAIRMAN. You might as well ask the question about the air that we breathe—how are we going to get that?

Mr. FOWLER. I have always heard that the poorer metal would chase out the good metal.

The CHAIRMAN. It would if they were compelled to pay out this metal. It is like putting a dam across a stream to keep the water from going to its common level.

GOVERNMENT DIVORCED FROM BANKING BUSINESS.

Mr. BROSIUS. If this bill goes into effect the Government is not in the banking business at all.

Mr. ECKELS. I suppose the theory upon which the provisions of the bill are based as to the silver in the country, is that the banks will be able to sustain the parity of the amount of silver now in circulation without expectation of its increase with gold, and that they are better able to do it than the Government.

Mr. HILL. Aside from the parity clause in this bill, isn't it entirely possible, under the provisions of this bill, for a bank to redeem all its obligations in silver?

Mr. ECKELS. It subjects itself, under the bill, to a certain tax if it does not maintain the parity.

Mr. HILL. But I say, aside from the parity clause, isn't is possible under the other provisions of the bill to redeem all its obligation notes of both kinds, and everything, in silver. The provision is that they shall pay in coin or coin certificates. It does not say gold or silver, and the only thing that prevents these banks going entirely to a silver basis is that provision of parity. Now, when you come to the provision of parity, that is not limited to redemption of notes, but it is in the payment of every obligation—deposits and everything else, that it has got to maintain the parity of the various kinds of currency. Can it be done?

Mr. ECKELS. Under my construction of that section and the construction I stated to Mr. Newlands some time ago, I would deem a bank to be committing an act of insolvency if it did not redeem its notes in gold on demand.

Mr. HILL. Under that parity clause only; that you would consider covered everything else?

Mr. ECKELS. Yes.

Mr. FOWLER. If they all came in insisting on gold?

Mr. ECKELS. It is very much like the case when the constitution was presented to Gouverneur Morris, of New York, and he was asked what he thought about it. His reply was that it depended upon how it was construed. So the construction of that clause is vital, and to make it so it ought to be held that if the bank failed to redeem upon

the demand of the note holder in gold it would commit an act of insolvency.

Mr. NEWLANDS. How about the depositor?

Mr. ECKELS. And the same rule should apply to the demand of a depositor.

Mr. HILL. In the first draft of the bill it was provided that the redemption fund should be paid out, but under the last reprint of the bill the redemption fund has been stricken out and the general provision is now to maintain the parity of all money for any money it pays out, deposits or redemption fund or anything else, and the only resource the bank has is, it can pay out what it pleases by paying to the United States Government an interest account on the deficiency of its reserve of 4 per cent per annum on that deficiency. Am I correct?

Mr. ECKELS. Please repeat your question.

Mr. HILL. I say it has the option of withdrawing from the parity clause by paying to the United States Government such a sum as would be represented by 4 per cent interest on its deficiency of reserve, but if its deficiency of reserve is kept up to the full amount it can pay silver or greenbacks or gold, as it chooses.

Mr. ECKELS. But not, if my construction is correct, that an act of insolvency would be committed. However, those matters would probably largely regulate themselves except in extreme conditions, as we see now. People in normal times would not be demanding a particular kind of money. In a general way, I think it is fair to me to say that the explanation of the various provisions of these bills, which have been drawn by the gentlemen presenting them, ought to rest largely upon their explanation, not mine. I simply can state some general views on the subject, and must leave to the others to explain the intricacies of the details thereof.

OPINION OF THE COMPTROLLER.

The CHAIRMAN. It is due to me to ask you, Mr. Eckels, whether I have gotten your opinion upon this bill before you came here, or whether we have consulted about it except about it being properly phrased when you were reading it over with me. I want to know whether this matter has ever been mentioned between you and me except that way.

Mr. ECKELS. No.

The CHAIRMAN. This is the first time I ever have known what you really thought of or would say of the bill.

Mr. ECKELS. In the treatment of all these bills I have been very glad to furnish the various gentlemen who are interested in them such statistical information as they have wanted. I have furnished Mr. Fowler with a good deal, and I have furnished Mr. Walker with a good deal. I will be very glad to furnish them or any other gentleman on the committee with any other information in my power.

Mr. NEWLANDS. None of us regards Mr. Eckels as an accomplice in this bill.

The CHAIRMAN. To-morrow has been assigned to the international banking bill.

Thereupon the committee, at 4 o'clock p. m., adjourned.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., Monday, February 8, 1897.

The committee met at 10.30 a. m.

Members present: The chairman (Mr. Walker) and Messrs. Brosius, Johnson, Van Voorhis, Fowler, Spalding, Calderhead, Hill, Cooke, Cox, Stallings, Black, Newlands, and Hendrick.

Hon. James H. Eckels, Comptroller of the Currency, appeared before the committee and continued his statement begun on January 28, 1897.

STATEMENT OF HON. JAMES H. ECKELS, COMPTROLLER OF THE CURRENCY—Continued.

The CHAIRMAN. Allow me to say that the business before this committee is considering bills which were referred to this committee, and which were introduced by Mr. Walker, Mr. Cox, Mr. Hill, Mr. Fowler, and Mr. Brosius. However interesting discussions in other directions may be, they are not in order. Mr. Cox has the floor.

Mr. COX. Have you a copy of the bill H. R. 1999 before you there?

Mr. ECKELS. Yes.

Mr. COX. I shall confine my short examination to the explanation of this bill.

[H. R. 1999, Fifty-fourth Congress, first session.]

A BILL to regulate national currency and provide for national money.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That so much of all acts and parts of acts as require or authorize the deposit of United States bonds to secure circulating notes issued by national banking associations, or as require such associations to deposit or keep on deposit United States bonds for any purpose except as security for public money, be, and the same are hereby, repealed as to associations taking circulation under this act; and notes issued under this act shall not contain the statement that they are so secured.

SEC. 2. That any national banking association organized as now provided by law, and any national banking association hereafter organized, may take out circulating notes to an amount not exceeding seventy-five per centum of its paid-up and unimpaired capital upon depositing with the Treasurer of the United States currency certificates issued under section fifty-one hundred and ninety-three of the Revised Statutes of the United States, or United States legal-tender notes, including Treasury notes issued under the act approved July fourteenth, eighteen hundred and ninety, entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes," and other lawful money of the United States, at the discretion of the Secretary of the Treasury, as a guaranty fund equal to thirty per centum of the circulating notes applied for. The association making such deposit shall be entitled to receive from the Comptroller of the Currency circulating notes in denominations of ten dollars and multiples thereof in blank, registered and countersigned as provided by law; and all such notes shall constitute, and are hereby declared to be, a first lien upon all the assets of the association issuing the same. All circulating notes furnished to national banking associations under this act shall be uniform in design; and the Comptroller of the Currency is hereby authorized and directed to have prepared and keep on hand, ready for delivery on application, a reserve of blank notes for each national banking association having circulation; but such reserve for each bank shall at no time be in excess of the difference between the amount of its notes then outstanding and the total amount which it is by this act authorized to receive.

SEC. 3. That in lieu of all existing taxes each national banking association taking out circulation under this act shall pay to the Treasurer of the United States, in the months of January and July of each year, a duty of one-fourth of one per centum for each half year upon the average amount of its notes in circulation; and in computing such average all notes issued by such association and not actually retired from circulation in the manner hereinafter provided shall be included.

SEC. 4. That each national banking association shall redeem its notes at par on presentation at its own office and at such agencies as may be designated for that purpose by the Comptroller of the Currency; and whenever such association desires

to retire the whole or any part of its circulation, the notes to be retired shall be forwarded to the Comptroller of the Currency for cancellation, and thereupon a sum equal to thirty per centum of such canceled notes shall be returned to the association, in lawful money of the United States. Defaced and mutilated notes and notes otherwise unfit for circulation which have been redeemed by any association may be returned to the Comptroller of the Currency for destruction and reissue, as now provided by law.

SEC. 5. That in order to provide a safety fund for the prompt redemption of the circulating notes of failed national banking associations each such association now organized or hereafter organized, and receiving circulation under this act, shall pay to the Treasurer of the United States, in the months of January and July in each year, a tax of one-fourth of one per centum for each half year upon the average amount of its circulating notes outstanding, to be computed as hereinbefore provided, until the said fund amounts to a sum equal to five per centum upon the total amount of such national-bank notes outstanding, and thereupon the collection of said tax shall be suspended. Each association hereafter applying for circulating notes shall, before receiving the same, pay its pro rata share into the said fund; but an association retiring or reducing its circulation shall not be entitled to withdraw any part of said fund. When any such national banking association becomes insolvent, its guaranty fund held on deposit shall be transferred to the safety fund herein provided for, and applied, together with such part of the safety fund as may be necessary, to the redemption of its outstanding notes; and in case the said last-mentioned fund should at any time be impaired by the redemption of the notes of failed national banks, and immediately available assets of said banks are not sufficient to reimburse it, the collection of said tax of one-fourth of one per centum for each half year shall be resumed and continued until the said fund is restored to an amount equal to five per centum upon the total circulation outstanding. All circulating notes of failed national banks taken out under this act not redeemed on presentation to the Treasury of the United States, or an assistant treasurer of the United States, shall bear interest at the rate of six per centum per annum from the date of suspension of the bank until thirty days after public notice has been given that funds are on hand for their redemption, and such notes shall constitute a first lien upon all moneys thereafter received into the safety fund.

SEC. 6. That the Secretary of the Treasury may from time to time invest any money belonging to the safety fund in United States bonds, and the bonds so purchased and the interest accruing thereon shall be held as part of the said fund. Such bonds may be sold when necessary and the proceeds used for the redemption of the circulating notes of failed national banks.

SEC. 7. That every national-banking association heretofore organized and having bonds on deposit to secure circulation may withdraw such bonds upon the deposit of lawful money of the United States, as now provided by law; and thereafter such association may take out circulation under this act and be entitled to all the rights, privileges, and immunities herein conferred.

SEC. 8. That the whole of section nine and so much of section twelve of the act approved July twelfth, eighteen hundred and eighty-two, entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," as directs the Secretary of the Treasury to receive deposits of gold and to issue certificates thereon be, and the same are hereby, repealed; and section thirty-one of the act approved June third, eighteen hundred and sixty-four, entitled "An act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof," and sections fifty-one hundred and ninety-one and fifty-one hundred and ninety-two of the Revised Statutes of the United States, and all acts and parts of acts amendatory thereof, be, and the same are hereby, repealed: *Provided*, That no banking association taking out circulation under this act shall retire or cancel any of its bank notes without the written consent of the Secretary of the Treasury (if said notes are national-bank notes) or the proper State officer (if said notes are State notes).

SEC. 9. That the Secretary of the Treasury may, in his discretion, use from time to time any surplus revenue of the United States in the redemption and retirement of United States legal-tender notes and notes issued under the act of July fourteenth, eighteen hundred and ninety, but the amount of such notes retired shall not in the aggregate exceed an amount equal to seventy per centum of the additional circulation taken out by national banks and State banks under the provisions of this act; and hereafter no United States notes, national-bank notes, or Treasury notes authorized by the Act of July fourteenth, eighteen hundred and ninety, entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes," of a less denomination than ten dollars shall be issued, and as rapidly as such notes of denomination less than ten dollars shall be received into the Treasury, otherwise than for redemption and retirement, they shall be canceled, and an equal amount of notes of like character, but in denominations of ten dollars

or multiples thereof, shall be issued in their places; but nothing in this act shall be so construed as to repeal or in any manner affect the second section of the said act of July fourteenth, eighteen hundred and ninety.

SEC. 10. That section fifty-one hundred and ninety-one of the Revised Statutes of the United States be, and the same is hereby, amended so as to require national banking associations to keep not less than one-half of their reserve (provided for in said section) in legal-tender notes or Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, entitled "An act to direct the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes," if required to do so by the Secretary of the Treasury.

SEC. 11. That whenever there shall be received into the Treasury of the United States any legal-tender notes or Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, of less denomination than ten dollars the same shall be canceled and silver dollars or silver certificates of like denominations shall be issued in amount equal to such notes so canceled; and in order to put the provisions of this act into effect the Secretary of the Treasury shall proceed to coin the silver bullion in the Treasury as rapidly as practicable, and he is hereby directed to issue silver certificates upon the silver bullion now in the Treasury for the purposes hereinabove stated, and he is authorized to coin so much of said bullion as he may deem proper into subsidiary coin, to be used for the purposes set forth in this section.

SEC. 12. That the Secretary of the Treasury is hereby empowered and authorized to require any part of the customs dues or duties on imports to be paid in United States legal-tender notes, including Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes."

SEC. 13. That the bonds which may hereafter be issued under the act of January fourteenth, eighteen hundred and seventy-five, and the act of July fourteenth, eighteen hundred and seventy, shall bear a rate of interest not to exceed four per centum per annum. And full authority is hereby given the Secretary of the Treasury to issue said bonds for the purposes named in said acts without limit as to the time they shall become due and payable, and for the redemption of the notes issued under the act of July fourteenth, eighteen hundred and ninety.

SEC. 14. That the use of circulating notes of and above the denomination of ten dollars issued by a banking corporation duly organized under the laws of any State, and which transacts no other than a banking business, shall be exempt from taxation under the laws of the United States when it is shown to the satisfaction of the Secretary of the Treasury and the Comptroller of the Currency—

First. That such bank has at no time had outstanding its circulating notes in excess of seventy-five per centum of its paid up and unimpaired capital;

Second. That its stockholders are individually liable for the redemption of its circulating notes to an amount equal to the par value of the stock owned by them, but this shall not be required in the case of persons holding stock as executors, administrators, guardians, or trustees, if the assets and funds in their hands are liable in like manner and to the same extent as the testator, intestate, ward, or person interested in such funds would be if living and competent to act and hold the stock in his own name;

Third. That the circulating notes constitute by law a first lien upon all the assets of the bank;

Fourth. That the bank has at all times kept on deposit with an officer of the State, authorized by law to receive and hold the same, a guaranty fund in currency certificates issued under section fifty-one hundred and ninety-three of the Revised Statutes of the United States, or United States legal-tender notes, including Treasury notes of eighteen hundred and ninety, equal to thirty per centum of its outstanding circulating notes; and

Fifth. That it has promptly redeemed its notes at par on demand at its principal office, or at one or more of its branch offices, if it has branches.

Whenever the Secretary of the Treasury and the Comptroller of Currency shall be satisfied that any banking corporation duly organized under the laws of any State, and which transacts no other than a banking business as provided in this section, has been incorporated under the laws of the State in which it is located, and that such laws require—

First. That its stockholders shall be individually liable for the redemption of its circulating notes to an amount equal to the par value of the capital stock owned by them;

Second. That the circulating notes thereof shall constitute a first lien upon all the assets of the bank; and

Third. That such bank shall keep on deposit at all times with an official of the State, authorized by law to receive and hold the same, a guaranty fund as required in the fourth paragraph of this section.

There shall thereupon issue to said bank a certificate to that effect. Said bank

may then issue its notes of and above the denomination of ten dollars, as provided in this act, and thereafter the tax of ten per centum heretofore imposed by law upon the circulation of the notes of State banks shall not be assessed or collected upon the notes of such bank unless it appears that said bank has issued circulating notes in excess of seventy-five per centum of its paid-up and unimpaired capital, or that its capital is impaired and has remained so for thirty days, or that the bank has not kept on deposit with the State official authorized by law to receive and hold the same a guaranty fund as required in the fourth paragraph of this section, or that said bank has not promptly redeemed its notes in lawful money at par on demand at its principal office, or at one or more of its branch offices, if it has branch offices, or that such State has repealed any of such laws; and no person or corporation, other than the bank issuing such notes in violation of the provisions of this act, shall be liable to pay the said tax of ten per centum for any use of the circulating notes of such bank after such bank has taken out circulation under this act.

SEC. 15. That any national banking association and any banking association organized under the laws of any State may deposit with the Treasurer of the United States legal-tender notes and Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, and receive certificates therefor in the manner provided in section fifty-one hundred and ninety-three of Revised Statutes of the United States. And the Secretary of the Treasury may, under proper rules and regulations to be established by him, permit the State banks to procure and use in the preparation of their notes the distinctive paper used in printing United States securities; but no State bank shall print or engrave its notes in similitude of a United States note, or certificate, or national-bank note.

The CHAIRMAN. Let me say one word further. It is not quite fair to ask the Comptroller to come up here again, and I hope there will be no interruptions. We will ask him questions after we all get through, after Mr. Hill, Mr. Fowler, etc., and I think if we pursue that method we may get through to-day.

CIRCULATION SECURED BY BONDS.

Mr. COX. The first thing I want to direct your attention to is the first section of the bill as I understand it, to see that we get started right, and that is, the idea of making a deposit of United States bonds for the security of the circulation?

Mr. ECKELS. Yes.

Mr. COX. And the second section. the important one, is the basis upon which circulation is issued?

Mr. ECKELS. Yes.

Mr. COX. That is 30 per cent?

Mr. ECKELS. The second section provides the manner in which notes of the banks organizing under the provisions of this act may be issued, and leaves it discretionary with the bank whether it shall organize.

Mr. COX. I was going to refer to that when going through that section. Now, under the provision of the second section they can take out 75 per cent of their paid-up capital stock?

Mr. ECKELS. Yes.

Mr. COX. Of that 75 per cent, 30 per cent is based upon the Treasury notes and greenback notes?

Mr. ECKELS. Yes; which would stand in the nature of a security.

Mr. COX. Now, let me call attention to that section. Under any plan which you have examined, or the one you have suggested yourself, does it not involve the idea that the Government must in some way stand as a guarantor for the circulating notes, either by a guarantee of bonds or in some other way?

Mr. ECKELS. In all of the plans which have been suggested so far the notes to be issued by the national banks are guaranteed by the Government.

Mr. COX. The Government standing good for their ultimate redemption?

Mr. ECKELS. Yes.

ISSUE OF CIRCULATING NOTES.

Mr. COX. In this section, as presented here, the 30 per cent that is issued on the greenbacks or Treasury notes—I treat them all the same—would be the guarantee of the Government for that amount of the circulation. The remainder of the circulation, if taken out, would be secured by the assets of the bank, a first lien, etc.

Mr. ECKELS. In so far as the 30 per cent notes are concerned, they are absolutely secured to the note holder by a deposit security, and the Government is absolutely secured against loss. The balance of the notes are secured by the assets, the Government guaranteeing the payment of the notes, recouping itself from the assets, together with the guarantee fund, which is to be provided by a tax.

SAFETY-FUND PROVISION.

Mr. COX. A safety fund, I think the Secretary calls it here, so that if the Government should be compelled to pay the 45 per cent issued upon the assets of the bank there will be no danger of the Goverment losing anything, because it has all the assets of the bank, first, and the stockholders' liability, and, in addition to that, has the safety fund of 5 per cent which has accumulated in the hands of the Treasury?

Mr. ECKELS. I do not think there would be any danger of the Government losing anything, although there might be a possibility of its doing so. There certainly would be no danger to the note holder, because he has the Government guaranty.

Mr. COX. That is, as I regard it, a very important section of the bill. It makes a radical change in the present law, with this safety fund of 5 per cent in the hands of the Government, and liability, etc. We have spoken of the assets of the bank; has it not been already demonstrated by the present banking system that the amount of money which is held in the Treasury as a protection against the outstanding notes—this same thing might be called a safety fund—has not that proven beyond any dispute adequate for the protection of the Government?

Mr. ECKELS. Yes; the 5 per cent has been ample to make current redemption.

Mr. COX. One more idea upon this section. It further conveys or carries the idea that in the redemption of notes the banks are their own redeemers.

Mr. ECKELS. They are for current redemption; they provide a redemption fund for the purpose of making current redemption.

Mr. COX. Either over their own counters——

Mr. ECKELS. Or through such agencies as the Comptroller may establish.

Mr. COX. Passing from that section to this general question, have you been able to find any serious objection contained in the first section, outside of one to which I want to call your attention in a minute—that is, putting the discretionary power in the bank; I want to call your attention specially to that. Here is a banking system, there is no doubt about the solvency of it, there is no doubt about the notes being good, and the Government is not paying to the banks interest upon bonds at the same time it is furnishing that circulation, and I think that is the one thing that makes the system now most unpopular.

SECURITY OF THE CIRCULATION.

Mr. ECKELS. I think that for the security of the note that section is ample, and its provision makes the note absolutely secure.

Mr. COX. That covers the most important question, in my judgment, of all of these bills. As you remarked the other day, any banking system has to be so framed that it will induce men of sound judgment to take hold of it and go into it. Now, in this section there is nothing compulsory about it that I can see.

Mr. ECKELS. The bill as first prepared, as I remember, made it absolutely incumbent upon the bank to go into the system, but afterwards it was modified so it was left discretionary with it. If a bank wished to issue notes against bonded securities it could do so, and if it did not wish to do so it could issue them under this plan.

ELASTICITY.

Mr. COX. As my memory serves me, in the first preparation of the bill the tax upon the circulation taken out on the bonded circulation was increased so as to drive them into this system. That was modified afterwards. Now the practical part of it is under this system, with the power of the bank to take out 75 per cent of circulation and 45 per cent on the basis of their assets, etc. Would not that give the currency of the country at least such elasticity——

Mr. ECKELS. Within the limit allowed of notes to be issued against assets you would probably find all the necessary elasticity desired in the currency. The point in this bill, which it seems to me is of a good deal of moment, is that as at present drawn it accomplishes only the temporarily impounding of the legal tenders, instead of their complete destruction. It is provided that the banks shall deposit with the Treasury in legal tenders and Treasury issues an amount equal to 30 per cent of the circulating notes applied for, which are to remain with the Treasurer until the bank ceases to do business or until the circulation of the bank is reduced, whereupon they are released and returned to the bank. Such a course would result in simply putting them out again for the purpose of being currently redeemed by the Treasury. The provision should be, instead, that when the bank ceases doing business the legal tenders and Treasury notes deposited shall thereupon be redeemed and canceled by the Government, or when the bank reduces its circulation so much of the legal tenders which are thereby released shall be paid and canceled.

Mr. COX. That, of course, would be a gradual way of taking them up.

Mr. ECKELS. That would get them out of the way.

ISSUING BONDS TO RETIRE GREENBACKS.

Mr. COX. Eventually that is getting them out of the way. On that point you are perfectly aware of the strong opposition there is in the country against the issue of bonds—I do not care how low the rate of interest is—with which to take up these greenback notes and destroy them. Now, would it not be better—somewhat of a compromise, I admit—to take up this idea in this bill and make that deposit of 30 per cent of the capital stock of these notes, and then as the banks went out, or as they undertook to redeem or take up those greenbacks—I think the word "redeem" is not proper—but to take them up and cancel

them and then put the bonds, if you have no money, in their place, instead of undertaking to issue the whole amount of bonds and redeeming the whole of the notes?

Mr. ECKELS. I do not think it would be better, nor do I think it would be as good, but you might be able to have it accepted by Congress. Of course you have to meet prejudice and you have to meet opposition in any measure you may present. A bank bill can not be successfully established, however, on any other than a correct basis. Certainly if this bill should be enacted into law there ought to be a provision that when these legal tenders are deposited to secure circulation they will be at once destroyed, and thus an end made of them. When the bank goes out of business the Government should then return in gold to the bank depositing the amount in dollars of legal tenders theretofore deposited by the bank. The same rule should prevail when it reduces its circulation. It ought to be distinctly understood that when the Treasury issues thus go into the Treasury for the purpose of securing circulation that is the end of them.

TAX UPON CIRCULATION.

Mr. COX. I think we have got the germ of that section. The third section fixes the tax upon circulation, and that is all.

Mr. ECKELS. It has been found by careful calculation that one-fourth of 1 per cent is a sufficient amount of tax to meet all——

Mr. COX. This is one-half of 1 per cent, and it is payable every six months, you see.

Mr. ECKELS (continuing). That one-fourth of 1 per cent is sufficient to meet all the necessary expenses.

Mr. COX. Then it might be well provided that on the 1st of January and the 1st of July of each year, instead of paying one-fourth, it is well to put in there one-eighth, of 1 per cent?

Mr. ECKELS. Yes; as Mr. Johnson said the other day, it is wise to keep the tax on circulation as low as possible, in order to make bank notes as cheap as possible to the institution which intends taking them out.

Mr. NEWLANDS. Is that tax payable in gold, or how?

Mr. COX. No; it is payable in lawful money. You mean in this section of the bill? This bill is based on the idea that anything can be discharged in lawful money.

Mr. NEWLANDS. The circulating notes are lawful money?

Mr. COX. Whatever is legal tender by law. That is the idea this bill is based on—that, with whatever is established as legal-tender money by the Government it can redeem the notes and pay the tax; but it does not undertake, of course, to decide what is legal-tender money, and it ought not to be fixed in a bill of this kind, I think.

The fourth section——

Mr. ECKELS. That is the section I have been talking about. It does not make the provision which I think ought to be made, if such a system should be entered upon, of permanently retiring your legal tenders.

Mr. COX. One moment, so as to get it clear to the reporter, here. Your idea about that is, it would be an improvement, whether it would be satisfactory or not, upon this bill, that when those notes are deposited for circulation—I mean Treasury notes, etc.—and the circulation is taken out, there should be distinct and full understanding that it is the last of those notes, as far as disturbing the Treasury is concerned?

Mr. ECKELS. Yes; the plan under this bill would be to pay and cancel them gradually, and do it without issuing bonds.

Mr. Cox. Let me call your attention to another point in this section we are on. This is a broader provision than returning the note:

And thereupon a sum equal to 30 per cent of such canceled notes shall be returned to the association, in lawful money of the United States.

It does not make it imperative to return the notes at all, but makes it imperative to return lawful money of the United States.

Mr. Eckels. That gives the Government the discretion to return its legal tenders and Treasury notes.

Mr. Cox. Or any other money which is legal tender. The next section requires a safety fund, which I do not think we need to refer to.

There is the fifth section. I think I have never heard that the Comptroller objected to that isolated section.

Mr. Eckels. That is a very safe precautionary measure.

Mr. Cox. In the discussion we had in the House there was no criticism on that which I heard?

Mr. Eckels. No.

INVESTING SAFETY FUND IN BONDS.

Mr. Cox. Then the sixth section gives the power to invest the safety fund in bonds, and there can be no objection to that. The interest accumulating upon the bonds so invested goes to increase the safety fund. I should say there can be no serious trouble about that.

The seventh section——

Mr. Eckels. That is the section covering the discretionary power vested in the banks of going into this system if deemed best on their part to do so.

Mr. Newlands. Can it have both kinds of circulation at once under your bill?

Mr. Cox. Here is the point, that the banks are not compelled to go in under this system. They may go in under it and it gives them the choice. So far as the circulating notes are concerned there is no distinction.

Mr. Newlands. I understand that it contemplates circulating notes issued on bonds and also circulating notes issued under the provision of this act?

Mr. Cox. Permit me to say I am discussing the bill from my view of it. The Secretary did not think that way, but I think they should be compelled. Section eight is a repeal of some sections we are all familiar with, which ought to be repealed to make the bill harmonious.

REDUCING CIRCULATION.

Mr. Eckels. As I remember it, the last section mentioned, which it is proposed to repeal, is that section of the banking act in which it is provided that after a bank has reduced its circulation it is not permitted to take out new circulation until the lapse of six months?

Mr. Cox. Let me see; that is right. That is the first one.

Mr. Hill. And it also requires the total withdrawal of not to exceed $3,000,000 a month. That repeals that provision.

Mr. Eckels. The design being that there should not be a hard-and-fast line fixed relative to circulation, but in a large measure it should be left discretionary to the banks to say whether or not they should reduce their circulation, and when.

Mr. Hill. Pardon me, this section does not leave it discretionary with the banks. They must have the written consent of the Secretary of the Treasury. Would you approve that?

Mr. ECKELS. My own view of the matter is to leave it entirely discretionary with the banks. As I have said a number of times before, I think that the banks are best able to judge in the matter, and that they will not do anything in the way of reducing circulation that is going to injuriously affect communities in whose prosperity they are interested for their own prosperity.

COMBINATION BY THE BANKS.

Mr. COX. That is evidently intended to meet the matter of preventing any combinations by the banks.

Mr. HILL. Do you believe that such a combination is possible?

Mr. ECKELS. No; and I do not think it is probable, either.

Mr. COX. There is more in that section than that. On the top of page 6, that section:

As directs the Secretary of the Treasury to receive deposits of gold and to issue certificates thereon.

That stops that?

Mr. ECKELS. Yes.

Mr. COX. The next is:

And section 31 of the act approved June 3, 1864, entitled "An act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and the redemption thereof."

Of course that is repealed in harmony with the act.

And sections 5191 and 5192 of the Revised Statutes of the United States, and all acts and parts of acts amendatory thereof, be, and the same are hereby, repealed.

I do not call to mind exactly what those sections are.

Mr. ECKELS. I think those are sections relative to any circulation being again taken out after it has been once withdrawn.

Mr. COX. That is it. Now you can see the proviso:

That no banking association taking out circulation under this act shall retire or cancel any of its bank notes without the written consent of the Secretary of the Treasury.

Mr. ECKELS. As a corollary to that, if you say that a bank shall not withdraw its circulation until consent has been obtained of some official, it would follow naturally that a bank must take out circulation if it was deemed best by some public official.

The CHAIRMAN. Do you mean to say it is in the bill, or ought to be?

Mr. ECKELS. I say it would follow as a natural corollary.

The CHAIRMAN. And therefore ought to be in the bill?

Mr. ECKELS. I do not believe either provision ought to be in the bill. Neither would be wise.

The CHAIRMAN. But if one is the other ought to be; is that your position?

VOLUME OF CURRENCY.

Mr. ECKELS. Yes; but I do not believe that either ought to be in the bill. It goes to the same thing. It is undertaking to regulate the volume of the currency by some other means than through the knowledge had through the various banks designed to supply their communities with the necessary amount of circulating medium.

Mr. COX. Pardon me just in that connection. There is the point that is the whole meat of it, about compelling a bank to take out circulation. Suppose we put the proposition in this shape, that when the

circulation, as provided for by law, whatever it may be—not going back to that, because that is the review of what we have gone over—but suppose we reduce the tax upon circulation to one-fourth of 1 per cent, or reduce it even lower than that, making the tax alone sufficient to pay the expenses of the preparation of the notes, etc.

Now, then, you reduce the tax that way; what would be your idea and what would be the serious objection to the bank being compelled to take out circulation whether they wish it or not, and put the responsibility upon them to issue as they see proper, and always have a fund ready to the extent of their circulation provided by law to be put in circulation? Now, pardon me one moment, because we struck that point the other day, and I am sure we did not exactly understand each other. The moment, of course, the circulation is issued in the Treasury Department that is charged to the bank. Now, I think, there could be but one point to which the bank could make serious objection, and that would be the tax that is placed upon the circulation the moment it is issued from the Treasury Department. Reduce that tax to one-eighth of one per cent or to the amount of the expense the Government incurs in the preparation of the notes. They are charged with the full circulation, and the tax, whatever it is fixed at, is a tax on the full circulation. Would not that have the effect of inducing the banks to take out the circulation and hunt for investments for the money?

If you make the objection that if you do you would make an iron rule as to the extent of circulation, of course you have got a rule fixed as to the amount of circulation, but as to the use of it you have got no rule fixed. Now, in my locality at certain times we need more circulation than at other times, and the bank getting advantage of this full circulation we are providing for takes it under the reduced tax of one-eighth or one-fourth of 1 per cent. Then we have no trouble, as I see it, in having the amount of circulation which meets any requirement of our people. That is the question my friend, Mr. Johnson, is very much troubled with. If we do that and reduce the tax, say, to one-eighth of 1 per cent, or the cost of what is necessarily expended about it, the bank starts with a full amount of circulation, and they pay that?

Mr. SPALDING. Compel them to use it?

Mr. COX. It makes it to their interest to do so, because they are paying that per cent without any profit unless it is issued. That is what we want to get the banks interested in. The gentleman remarks that when the pinch comes they would have no surplus. This present bank law is defective in that when the pinch comes they can not get the money. I want to get that point out there and then pass to another.

Mr. ECKELS. Undoubtedly, as you state, Mr. Cox, your people at one time need more money than at another, and for that very reason I should leave it entirely to the banks, knowing these various conditions, to say how much circulation they would keep out. Another thing, if you would keep out this large amount of circulation, although you do reduce the tax you curtail the availability of the banks' funds to a certain extent by an unnecessary amount tied up in a redemption fund. If they are compelled to keep out all the circulation they must always keep a redemption fund of 5 per cent locked up.

Mr. COX. But they do not keep it out. It is a matter of discretion with the banks.

Mr. ECKELS. They have it from the Treasury——

Mr. COX. And they are charged the per cent.

Mr. ECKELS. They are compelled to keep a redemption fund upon

the amount of circulation which has been issued to them by the Treasury.

Mr. COX. But you distinctly understand me that, so far as putting it into circulation and using it as money is concerned, it is a matter of discretion, entirely, with the banks. It is not that they shall put it out, because no bank could live under a law which compelled it to put out money.

MONEY ACCUMULATES IN LARGE CENTERS.

Now, let me call your attention back to the remaining point, which is to me the most interesting thing in all of these bills, because I am trying to get my bill into the best shape we can. These banks, we assume, have not got that circulation in their banks from the Treasury vaults, but it is charged up to them. They can get it any day they want it. Now, the objection seems to be that you are forcing the banks to take out circulation when the banks decide there is no necessity for it. Let me show you how these things work. I have no doubt you are aware that whenever a crisis comes in our country, when money is needed in the agricultural part of the country, all the banks in the great centers, where they have got abundant money and more money than they need, begin to make overtures to us, and then they begin to try and supply us with the money. Now, then, we have to be governed entirely by the rate of interest which they charge, and I suppose every bank in the United States keeps a deposit in New York and has a correspondent there. Well, then, we are required not only to keep the amount deposited there, but when we undertake to draw on them and get money from them the rate we pay is controlled by the rate they establish in these money centers.

Mr. ECKELS. I do not know exactly how you can prevent money from drifting to the large centers.

Mr. COX. There is but one way to do it, and that is the question of interest and money hunting the place where it will pay the best. That is the only rule on earth by which you can work it.

Mr. ECKELS. Certainly.

RATES OF INTEREST.

Mr. COX. There is but one way you can control money flowing to and fro and hunting the place where it will pay the best. Give it natural course and it will hunt the place where it will pay the best. I do not want to take up much time of the committee, but that point I wanted to elucidate. Let me take a practical illustration of it. We commence, say in October, with demands on the little banks—and most of them in my country are little banks—and the demand for money is such that we can not furnish it and we soon run to our limit and must stop. What is the next step? Why, to protect our customers and hold them in line, we take their notes and indorse the note. Of course the indorsement of a bank is what passes it in the centers; it is not the individual on the note at all. Then we get that money and we bring it back to accommodate our customers the best we can, but we can not do that for nothing. We have got to have something to pay us for the risk incurred, and it has been the result for the last fifteen years that there never has been any money which has gone out of our banks, which are in the central portion of that country, that the man getting it did not pay above 8 per cent for it. Now, if these banks had full circulation—you say

they do not need it all the time—that is true; but if they should have full circulation when it becomes to their interest, whenever the opportunity suggests itself they will put it in circulation.

Mr. BROSIUS. But they have the cost of keeping it?

Mr. COX. If the banks are compelled to take out their full circulation I will vote for any tax sufficient to pay the expenses of getting the circulation, because the tax on circulation is never paid by the bank; it is paid by the customers.

Here comes the ninth section. The ninth section gives the power of redemption of these legal-tender notes when there is a surplus in the Treasury.

Mr. ECKELS. That is virtually a reenactment of a measure which at one time was placed upon the statute books, providing for the redemption and cancellation of Treasury notes when a certain amount of national-bank notes had been issued.

Mr. COX. You will find that section almost language for language in the resumption act.

Mr. ECKELS. Yes; it was designed to allay any fear of contraction, or to prevent any contraction in the retirement of the legal tenders.

GETTING SILVER COIN INTO CIRCULATION.

Mr. COX. That ninth section also embraces the idea that this circulation furnished by the banks shall be in denominations of $10 up; it is easy to understand what that is for.

Mr. ECKELS. I was going to say, in regard to the ninth section, that it makes a change in the present banking act by prohibiting the issue of five-dollar bank bills.

Mr. COX. Yes; that is in connection with anoth r idea.

Mr. ECKELS. I suppose the idea of that is that by this provision the silver coin will be gotten into circulation.

Mr. COX. That is it; that is certainly the idea.

Mr. ECKELS. In other words it is a method of forcing silver into the pockets of people whether they want to carry it or not. I hardly believe this can be done. So, too, I am not sure but that a great inconvenience is created by not permitting the five-dollar bills to be issued.

Mr. COX. Well, of course that hangs distinctly on the idea that if the silver coin is as acceptable as $5 there will be no trouble about that.

RESERVE MONEY.

The tenth section goes further than we have gone. It is in relation to providing for the reserve—that this same character of note shall be held as a reserve.

Mr. ECKELS. The present law requires that the reserve shall be kept in lawful money. This is in line with the other provision of the act to get the legal tenders and Treasury notes out of the way and restricting the reserves held at least to the extent of one-half in this particular kind of currency?

Mr. COX. Yes. Of course the great object of that is to try and stop these raiders.

Mr. ECKELS. The whole design of this bill is to relieve the Treasury by getting the legal-tender and the Treasury notes out of the way of current redemption.

Mr. COX. And escape the responsibility of issuing bonds for that purpose.

THE "ENDLESS CHAIN."

Mr. JOHNSON. If you will let me ask a question on that point, what per cent of the greenbacks and Treasury notes, which constitute what might be termed the "endless chain," would be imprisoned or impounded by this act if it should go into effect, in your opinion? Are you able now to make such an estimate?

Mr. ECKELS. No; I could not, because under the provisions of this act it makes it discretionary with the existing banks whether they will go into it, and you have no basis upon which to calculate.

Mr. JOHNSON. Suppose it leaves one-third in circulation; is not the Treasury just as much in danger as if all were out? Would it not result that those in circulation would be used up more rapidly?

Mr. ECKELS. I do not think the danger would be as great, but I think as long as a single one is out there is danger.

Mr. JOHNSON. One other question in that connection. In your opinion would the banks be willing to accept the provisions of this bill? Would not the safety fund requiring banks to guarantee each other's solvency be a deterrent?

BANKERS DESERTED THE BALTIMORE PLAN.

Mr. ECKELS. The only thing I know is that after a plan virtually embracing a good many provisions of this bill was approved of by a convention of bankers at Baltimore, they all deserted it when it appeared in Congress in the form of a bill.

Mr. COX. You mean the committee?

Mr. ECKELS. No; not the committee, the bankers.

Mr. COX. There was not a man on the committee who voted for it?

Mr. ECKELS. They made the point that solvent banks, banks properly conducted, ran too much risk for banks which were not properly conducted. The expectation, of course, would be that under this bill we would have fairly well-conducted banks. It is probable that a very proper estimate of what the number of failed banks would be under it, with the same character of management, could be had by ascertaining the number we have had in the last thirty years in the same number of banks.

Mr. COX. There is no provision in this bill anywhere that one bank shall guarantee the notes of another bank.

Mr. ECKELS. That was in the original, but it is left out in this bill.

Mr. COX. We knocked that out.

Mr. NEWLANDS. Is that the reason the bankers objected to it?

Mr. ECKELS. That was one of the principal reasons.

Mr. COX. You could not put such a banking system into effect at all.

INCREASE OF GOLD IN THE TREASURY.

Mr. HILL. With regard to the section here which provides for the imprisoning or impounding of greenbacks and Treasury notes, I want to call your attention to the fact that we have got $145,000,000 of gold in the Treasury and it is increasing, and that the Treasury notes and greenbacks in the Treasury are constantly decreasing, and I want to ask you if you think that the increase of gold under those circumstances is any evidence of a safe condition of the Treasury?

Mr. ECKELS. Not in the least.

Mr. HILL. It is an evidence of an unsafe condition, is it not?

Mr. ECKELS. It is certainly not an indication of a safer condition. It is simply an indication that for the time being people have quit presenting legal tenders for redemption.

Mr. HILL. But, of course, there is a great deal of liability for calls on that, from the fact the Treasury notes and greenbacks are out in greater number.

Mr. ECKELS. Yes.

POSSIBILITIES OF ANOTHER PANIC.

Mr. BROSIUS. Does not an accumulation of gold in the Treasury indicate a return of confidence in our monetary conditions?

Mr. ECKELS. That, with other conditions.

Mr. HILL. Does it not also show that in the case of a sudden panic occurring the Treasury is far more exposed than if the greenbacks were entirely locked up?

Mr. ECKELS. Yes; if another attack is made upon the gold in the Treasury we would be in a great deal worse condition than we have been at any time during the last few years.

Mr. SPALDING. They have learned how.

POPULAR DELUSION CONCERNING LEGAL TENDERS.

Mr. ECKELS. That is just it; the people have learned how. It seems an absurd thing, but for a long period of time the public looked upon the legal-tender notes as somehow an asset of the Government instead of a liability, and upon the man who held legal tenders as in the possession of something which of itself had value. In the last four or five years everyone has come to know that instead of being assets they are liabilities, and that the legal tender is simply a promise to pay, which is made of value only when it is converted into gold by the promissor.

Mr. SPALDING. Let me ask if it is a fact that the Bank of England getting more gold into the bank, looked as though it was endangered and that the bank was in a worse condition than it was before?

Mr. ECKELS. Oh, no; because, outside of the uncovered paper there is an equivalent of gold back of every piece of paper issued by the Bank of England.

Mr. SPALDING. Is not that because for every dollar of greenbacks taken out of the Treasury a dollar of gold goes in for them? Is not that the way the increase is made, exactly the same as with the Bank of England?

Mr. ECKELS. No; there is not a dollar of gold coming in every time a dollar of greenbacks is issued, because greenbacks are issued to pay current expenses.

Mr. FOWLER. And with the expenses running behind about $12,000,000 a month?

Mr. SPALDING. Is it not true that $195,000,000 was paid into the Treasury during this Administration in exchanging greenbacks for gold?

Mr. ECKELS. I do not know exactly the amount, but there was a great deal.

Mr. SPALDING. It was about that. Is it not true they recouped in a large measure the gold in the Treasury by issuing greenbacks, because they are better to carry than gold, and for various other reasons? There were $195,000,000 paid in, notwithstanding the action of this endless chain so much talked about?

Mr. ECKELS. Yes; there was a large amount of gold paid out. A great deal more than $195,000,000 was paid out.

Mr. SPALDING. That is largely because we are running short, I think. The statement of Mr. Hill is that the increase of gold in the Treasury endangers the condition of the Treasury.

Mr. ECKELS. It does not strengthen it unless you have both gold and greenbacks in the Treasury.

Mr. SPALDING. It could not strengthen the condition, because there is less than $346,000,000 of greenbacks in existence.

Mr. ECKELS. These notes and the Sherman notes would be about $450,000,000.

IMPRISONING THE GREENBACKS.

Mr. COX. Now, I will go back to my line of thought. The question propounded by Mr. Johnson, in the consideration of this bill, is a very proper one. Of course, as you decrease the amount of greenbacks outstanding and put them into prison, as the term has come to be used, so to that extent you decrease the danger of a raid upon the Treasury. That is plain. Now, under this bill you redeem the ones and twos and fives that are outstanding. You redeem them with silver when they come in. Do you remember the amount of fives, twos, and ones? I had that statement here at one time.

Mr. ECKELS. About $75,000,000 of ones and twos.

Mr. FOWLER. They amount to about $250,000,000.

Mr. COX. Just assume that sum for the point of my question. Now, say they are destroyed; you require 30 per cent of the circulation of the banks to be taken out on the basis of greenbacks. That would put in, I should say, if it were imperative, something like $150,000,000, would it not? I am running on these figures without having them fresh in my mind.

Mr. ECKELS. The present national-bank capital is about $650,000,000. If all the present national banks went into the system——

Mr. COX. Making it imperative.

Mr. ECKELS. If they were compelled to take out 75 per cent of the amount of that capital in circulation, 75 per cent of $650,000,000 would be about $485,000,000, and then 30 per cent of that sum, if they all went into it, would impound about $145,000,000.

Mr. COX. Now we add to the other.

Mr. ECKELS. To which other?

Mr. COX. To the other where you have included the fives, twos, and ones; and it amounts to about $250,000,000.

Mr. ECKELS. But some of the fives are legal tenders.

Mr. COX. Suppose we let the fives alone and cancel the ones and twos with silver. That is about $75,000,000, and then you get about $150,000 on the 30 per cent that is to be deposited for circulation of the legal-tender notes. Then you have got $180,000,000 and $75,000,000, which makes $250,000,000. I am running on rough figures now. When you come to the result you will find they are all impounded.

SILVER IN PLACE OF SMALL NOTES.

Mr. ECKELS. I do not understand by what method you say you cancel the ones and twos with silver. You do not intend to redeem in silver?

Mr. COX. This act provides when they come into the Treasury in any shape whatever they are canceled and silver is issued in their place and it goes to the extent of the fives. The fives were put in there. The calculation is. to supply the ones and twos and put in their place the silver.

Mr. HILL. There are $5,000,000 greenbacks, $19,000,000 Treasury notes, and $43,000,000 of silver certificates—ones and twos—making $69,000,000 all told, of silver certificates, greenbacks, and Treasury notes.

Mr. COX. It is not imperative under this act that he shall issue actual silver in the redemption and cancellation of those notes. It is owing to what the man wants; but it supplies to these raiders upon the Treasury the ones and twos with silver out of the bullion.

Mr. ECKELS. I do not understand the Secretary of the Treasury is to redeem in silver anything except silver certificates.

Mr. COX. Look at section 11:

That whenever there shall be received into the Treasury of the United States any legal-tender notes or Treasury notes issued under the act of July 14, 1890, of less denomination than $10, the same shall be canceled and silver dollars or silver certificates of like denominations shall be issued in amounts equal to such notes so canceled; and in order to put the provisions of this act into effect, the Secretary of the Treasury shall proceed to coin the silver bullion in the Treasury as rapidly as practicable, and he is hereby directed to issue silver certificates upon the silver bullion now in the Treasury for the purposes hereinabove stated.

Mr. JOHNSON. I suppose if any individual presented Treasury notes and demanded gold he would be entitled to receive it, but if he should present it in paying for customs it might be retired and silver issued in its place.

UTILIZING THE BULLION IN THE TREASURY.

Mr. COX. That is exactly right. Of course the idea in that bill was to try and utilize the bullion which is in the Treasury.

Mr. JOHNSON. It puts the silver represented by the certificate in its place?

Mr. COX. Section 12 gives discretionary power.

Mr. NEWLANDS. You get rid of the endless chain there.

Mr. COX. You have made a point that is not in this bill. I do not want to go into that now. Section 12 is another thing which provides, for the purpose of getting control of these Treasury notes, that so much of the customs dues shall be paid in these notes. I am right in the construction of that?

Mr. ECKELS. Yes; it gives discretionary power. It all tends to attempting to do the same thing. The balance of the sections relate to State banks.

Mr. COX. No; the thirteenth section was put into this bill before any bonds were issued by the present Administration and was an attempt to reduce the rate of interest. That is what that was put in there for.

STATE BANKS.

Section 14 refers to State banks. I want to ask you one question about that. You take all the provisions of that act that are made applicable to State banks, and the restrictions which are thrown around State banks in this act, and I would like to have your judgment as to whether it would be possible for a State bank to issue notes which would not be perfectly good.

Mr. ECKELS. That would depend entirely upon how the authorities live up to the provision of the law. If around State-bank issues are thrown all the provisions which are thrown around national-bank issues I am not able to see what advantage there is in not having State banks brought into the national system.

Mr. FOWLER. So as to secure a uniform currency?

Mr. ECKELS. And to do away with the inconvenience and confusion of having different-appearing circulating notes.

Mr. JOHNSON. There is not much more reason to have more safeguards thrown around State banks than around national banks, when they are really all national banks?

Mr. ECKELS. I think so. If the Government of the United States has power to make provisions as to the things that shall be done by the national banks before they can issue notes, I do not know why it has not the right to go a step further and say it will, as a matter of legal right, regulate the whole thing. There is, in addition, the doing away with any element of doubt that otherwise might exist as to the construction the various officers of the various States would put upon the provisions regulating them, as provided for by this act. I think the notes would be perfectly safe, but I do not see any advantage that would accrue to the State banks, and I do believe that some disadvantages would result.

Mr. JOHNSON. Having all national banks would tend to simplicity?

Mr. ECKELS. Yes.

Mr. JOHNSON. And avoid any question affecting jurisdiction between national and State governments?

UNIFORMITY OF REPORTS AN ADVANTAGE.

Mr. ECKELS. Yes; and that is a great deal and worth considering. I have within the last two weeks sent a letter to all of the governors of the States asking if the State reports can not be made uniform with national-bank reports, the time for making calls, etc. The gain in uniformity would be of great advantage.

Mr. COX. That ends the bill. Let me call attention to the first thing in regard to State banks.

First. That such bank has had at no time outstanding any circulating notes in excess of 75 per centum of its paid-up and unimpaired capital.

Of course the right to issue circulation is the same as for national banks, so there is uniformity in that direction. It can not issue in excess of 75 per centum and there is uniformity of circulation.

Second. That the stockholders are individually liable for the redemption of the circulating notes in an amount equal to the par value of the stock owned by them, but this shall not be required in the case of persons holding stock as executors, administrators, guardians, or trustees if the assets and funds in their hands are liable in like manner to the same extent as the testator, intestate, ward, or person interested in such funds should be if living and competent to act and hold the stock in his own name.

Third. That the circulating notes constitute by law a first lien upon all the assets of the bank.

There is the liability of the stockholder.

Fourth. That the bank has at all times kept on deposit with the officer of the State authorized by law to receive and hold the same a guaranty fund in currency certificates issued under section 5193 of the Revised Statutes of the United States, or United States legal-tender notes, including Treasury notes of 1890, equal to 30 per centum of its outstanding circulating notes.

This is substantially as it is in the national banks.

Fifth. That it has promptly redeemed its notes at par on demand at its principal office, or at one or more of its branch offices if it has branches.

Whenever the Secretary of Treasury and Comptroller of Currency shall be satisfied that any banking corporation duly organized under the laws of any State, and which transacts no other than a banking business as provided in this section, has been incorporated under the laws of the State in which it is located and as such laws require——

CREATING A HOME MARKET.

The point you make—and there is some point in it—if you put these restrictions upon the State banks, there is no necessity then for them to go in except into national banks. Let me call attention to the different methods. The assets of the bank depend upon the locality of the bank. It depends upon the business which it does; it does not depend upon any iron rule.

Take, for instance, a hundred-thousand-dollar State bank in my State, Tennessee. They have complied with the conditions, and no tax attaches to the circulation of the note. Notice, then, that we have got a certain amount of money in our vaults that can not be used. We invest that money in State bonds of the State of Tennessee as an asset of the bank. What is the effect of that? By investing there, we create what you might call a home market, and this interest on the bonds is paid out at home. In addition to that you make every bank in my State that has any investments of that kind deeply interested in maintaining the credit of its State. There is the advantage you get. Take a bank in New York or one of the great cities. They never think of investing their assets in that way, but we do. One great advantage, I think, this system gives, although as an old Democrat I do not think we had any right to put the 10 per cent——

Mr. ECKELS. I think the most undemocratic thing you have stated is your suggestion relative to the building up of a home market.

Mr. COX. I got on the Republican doctrine on that line.

Mr. JOHNSON. You have not got on the Republican doctrine on the State-bank idea.

Mr. COX. Well, I am willing to budge over one time. One more point about this. I do not believe you can sit down in this room or in Congress and formulate any banking bill that will be successful unless you leave a certain amount of control to localities over their own banking system. I do not believe you can do it to save your life. If we are permitted down there to organize State banks with circulation under these rigid restrictions—they were put in here for this purpose—you give us an opportunity to issue a currency just as soon as it is needed, and you give us an opportunity to do it and to use our own securities.

LOANING ON REAL ESTATE.

Mr. ECKELS. The difficulty in State banks issuing notes and having the bank notes accepted would lie in the fact that they would wish to have the same right which they now have of loaning on real estate.

Mr. COX. That is exactly right.

Mr. ECKELS. And unless it should be provided that State banks should not loan on real estate, there would be danger from such State bank issues. State banks in many sections of the South would not accept a system which does not permit them to loan on real estate.

Mr. COX. Pardon me just there. State banks do so all over the country, all over the United States, and in my town there is a State bank on one corner and a national bank on another. It is an everyday transaction that the State banks loan on real estate.

Mr. ECKELS. Yes; but that is the difficulty in issuing notes against their assets, because they are not bankable assets.

CONVERTIBLE ASSETS.

Mr. COX. The trouble which lies in your mind is that real estate is not an asset of that character which can be converted readily into cash for the purpose of the redemption of the notes; and in this bill, without regard to the denomination or the general assets of the bank, the funds are ample and sufficient. One more word there and we will pass from that. That is what is working an injustice with us, that the very assets we have got we can not use, but your national banks have to resort to this, and do so every day, and it is perfectly legitimate, and when a man wants to borrow money from a national bank, and he has got a farm, he gives his personal security upon that note, and that is the only way he can get it.

Mr. NEWLANDS. And his neighboring farmer indorses it, while the real security is the farm, after all?

Mr. COX. And the real security is the farm that the maker of the note holds. There are two points made against assets, and one is that you can not readily convert them into cash. Now, there is nothing in my country that you can convert into cash as readily as real estate, unless it is a bond or something which sells on the stock markets of the country, and we have none of those.

Mr. ECKELS. I do not think that any bank notes, under any well-regulated system, are permitted to be issued against assets which are known to be other than what are called quick assets, viz, good commercial paper. It is not good banking to issue bank notes against real estate assets, for the reason that real estate assets are not convertible upon demand.

Mr. COX. As to that sole objection that the assets of the bank are in real estate, I can give you an illustration of the practical working of it. In nine years' experience in the bank at home, we have never lost a cent—not a cent—but one step further which impresses me, I do not think it is proper or right by an act of Congress to discriminate against any property of any individual.

Mr. SPALDING. You mean real estate?

Mr. COX. I think real estate has the same rights of the territory, to so express it, as bonds or stocks.

Mr. JOHNSON. I want to ask you a question. Suppose this bill should become a law, and State banks should be given the right to issue circulating notes under it, do you understand the Government would retain the right of visitation upon those State banks; the right to require reports and inspect them by sworn officers?

Mr. COX. Put police power in there if you want to, but it would not amount to anything.

Mr. JOHNSON. It would not amount to anything unless the National Government had the right to enforce that power?

Mr. COX. Oh, the very moment there is a violation of the law in any shape, I do not care how you put it, in the redemption of notes, deficiency of assets, or anything of that kind, the Government could put its hand upon the bank by forcing——

Mr. JOHNSON. That would be shutting the door after the horse is out.

Mr. HILL. I move that the committee take a recess until 1 o'clock.

The motion was agreed to.

AFTER RECESS.

The CHAIRMAN. Mr. Hill has the floor.

Mr. HILL. How much time have I at my disposal?

The CHAIRMAN. That is for you to say.

Mr. HILL. I will limit myself to any time you may desire.

I would ask the consideration of the bill H. R. 9823.

Mr. Chairman and gentlemen, I think I can shorten this hearing by making a very brief statement. The purpose and object of this bill is to improve and liberalize the national-bank law as we now have it—the system as we now have it. I start on the theory that we have banks enough, and that the necessity for any more banks will develop them, the same as the necessity for grocery stores or dry goods stores will develop those stores, without any legislation. The purpose and object of this bill is to perfect the existing system, so that the State and private banks of the country will come under the national system. Its object is to so liberalize the present system as to bring existing banks under national supervision and control.

NO MORE BANKS NEEDED.

I am prepared to demonstrate that we have banks enough at the present time, but I do not wish to go into that subject, as I do not want to take up the time of the committee. I will say, however, that to-day the United States has banking funds to the extent of $93.60 per capita, as against $120 per capita in England, and these two nations are out of sight above every other nation in the world. The nation next to these two is Denmark, with $58 per capita, and the other nations run down to Germany, with $35; France, with $25 per capita, and Russia with $6 per capita. So I start out with the proposition that the thing for us to do at the present time is not to have a radical revolution in banking legislation or in the financial legislation of this country, but to improve what we have got and try to bring all the banks under a uniform system, and to so liberalize the law as to induce them, rather than to compel them, to come in. With that preliminary statement, I will go ahead.

I want to say in addition, however, that my theory in regard to this is sustained by two facts which have been made known recently. One of these is in the State of Massachusetts. The treasurers of savings banks have met there and announced as their deliberate opinion that there are too many banks in that State and that the number should be decreased and the capital reduced. The other fact I wish to speak about is that on the following day from Kansas came the official declaration of the State bank examiner that there are too many banks in Kansas and that they should be reduced 50 per cent in number and largely in capital.

So I think, gentlemen, I am sustained by these two official declarations that the banking facilities of this country are sufficiently great already, and that the thing for us to do is to try and improve the system rather than to enlarge it or radically revolutionize it. To do that I have introduced H. R. 9823, and I call the attention of the committee and the attention of the Comptroller to its provisions.

The first part of the bill is strictly in accordance with the recommendation, not only of the present Comptroller of the Currency, but of every Comptroller from John J. Knox down to the present time.

NOTES ISSUED TO PAR VALUE OF BONDS.

The first section is as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That upon deposit by national banking associations of United States bonds, bearing interest as provided by law under the provisions of sections fifty-one hundred and fifty-nine and fifty-one hundred and sixty of the Revised Statutes, such associations shall be entitled to receive from the Comptroller of the Currency circulating notes of different denominations in blank, registered and countersigned as provided by existing law, equal in face value to the full par value of the bonds so deposited; and national banking associations now having bonds on deposit for the security of circulating notes less in face value than the par value of the bonds, or which may hereafter have such bonds on deposit, shall be entitled, upon due application to the Comptroller of the Currency, to receive additional circulating notes in blank to an amount which will increase the aggregate value of the circulating notes held by such associations to the par value of the bonds deposited, such additional notes to be held and treated in the same way as circulating notes of national banking associations heretofore issued, and subject to all the provisions of existing law affecting such notes: *Provided,* That nothing herein contained shall be construed to modify or repeal the provisions of sections fifty-one hundred and sixty-seven and fifty-one hundred and seventy-one of the Revised Statutes, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security.

That permits the increase of circulating notes to par, which is your recommendation, I believe?

Mr. ECKELS. Yes; I have made that recommendation each year I have been Comptroller.

Mr. HILL (continuing). And which I thought would meet the approval of the banking institutions of the country.

TAX ON CIRCULATION.

The second section provides for the reduction of the tax to one-fourth of 1 per cent. I put this in the bill, in accordance with your recommendation. I would like to ask you why, in your judgment, any tax should be put on circulation?

Mr. ECKELS. The only justification for it would be to make banks pay the necessary expenditure of the Government in taking care of the supervision of the banks.

Mr. HILL. I would ask you if that is not paid by the national banks to-day, outside of any kind of a tax—the entire cost of making the bills and keeping the plates, and the examination of banks, and everything of that kind, as an additional charge, outside of taxation—isn't it assessed upon the banks?

Mr. ECKELS. The tax is for that expense.

Mr. HILL. The redemption charges are paid by the banks?

Mr. ECKELS. Yes.

Mr. HILL. The cost of the bills is paid by the banks?

Mr. ECKELS. Yes. The tax, though, is supposed to meet certain expenses of the Bureau.

Mr. HILL. Then I understand that the salary of the Comptroller and the expenses of the Bureau are not included?

Mr. ECKELS. No.

Mr. HILL. They are charged to the banks, and this tax of one-fourth of 1 per cent is nominally supposed to cover every outside expenditure not now assessed.

Mr. ECKELS. Yes.

Mr. HILL. And that this would be abundantly large and even more than sufficient.

Mr. ECKELS. Yes; more than sufficient.

Mr. HILL. Let me ask you whether, in your judgment, it would not be full as well to include those expenses in the assessment, as now laid, and not have any tax at all?

Mr. ECKELS. It would be virtually the same thing.

Mr. HILL. If it was an assessment, as the redemption charges are now made, and as the examination charges are now made, the banks then would absolutely pay the expenses and nothing more?

Mr. ECKELS. Yes.

Mr. HILL. Do you know any reason why money should be taxed?

Mr. ECKELS. No; I do not know of any reason why money should be taxed. I do not know of any reason why a country should undertake to get out circulation and put barriers in the way of so doing, in the shape of unnecessary taxes.

Mr. HILL. Section 2 is as follows:

SEC. 2. That in lieu of all existing taxes every national banking association shall pay to the Treasurer of the United States in the month of January of each year a duty of one-quarter of one per centum upon the average amount of its notes in circulation during the preceding year.

I have drawn that section in deference to your judgment—contrary to mine, because I think there should be no tax on money, myself.

RETIREMENT OF LEGAL TENDERS.

Section 3 is as follows:

SEC. 3. That whenever and so often as circulating notes shall be issued to any such newly organized banking association, or to an existing association increasing its capital or circulating notes, it shall be the duty of the Secretary of the Treasury to redeem and cancel legal-tender United States notes issued under acts passed prior to July first, eighteen hundred and ninety, to an amount equal to the sum of national-bank notes so issued to any such banking association; and whenever the Treasury shall not have in its possession United States legal-tender notes issued as aforesaid, the provisions of this section shall then apply to the like redemption and cancellation of Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety.

That provides for the redemption and cancellation of the legal-tender paper money of the United States exactly as fast and no faster than the national-bank circulation is issued under the liberal provision of this bill.

Mr. ECKELS. That is virtually——

Mr. HILL. A reenactment of the old law, except that it provides for 100 per cent when the other provides for 80 per cent.

Mr. ECKELS. Yes.

Mr. HILL. To keep the volume exactly alike.

GOLD BOND ISSUES AUTHORIZED.

Section 4 is as follows:

SEC. 4. That to enable the Treasurer of the United States to comply with the requirements of this act and to redeem and cancel the United States legal-tender notes and Treasury notes named therein, he is hereby authorized to issue from time to time, on the credit of the United States, coupon or registered bonds, redeemable at the pleasure of the United States after five years, and payable twenty years from date, bearing interest at the rate of three per centum per annum, payable semiannually, to such

an amount as may be necessary for the purpose herein expressed, and the proceeds of the same to be used for no other purpose whatsoever. The bonds so authorized shall be payable in gold, and shall be of such denominations, not less than one hundred dollars, as may be determined upon by the Secretary of the Treasury, and may be disposed of by him at any time at not less than their par value for either class of said notes or for gold in this country or elsewhere.

That provides for authorizing the Treasurer of the United States, whenever it becomes necessary and at his discretion—for this purpose and this purpose only, the proceeds to be used for nothing else—to issue bonds distinctly and specifically payable in gold, with authority to sell them here or elsewhere. Have you any objection to that?

Mr. ECKELS. I see no objection to the bonds being paid in gold.

Mr. HILL. You think there is no harm in such a discrimination?

Mr. ECKELS. I do not. I think there ought not to be a bond issued by this Government except distinctively payable in gold.

Mr. HILL. That meets your approval?

Mr. ECKELS. In that respect the section meets my approval.

Mr. HILL. Is there any other respect in which it does not meet your approval?

Mr. ECKELS. I have stated a number of times that I thought the manly and creditable thing to do would be to get rid of these legal tenders, by the funding of them, but the question this committee has to deal with is whether or not it is the most practical way. If I had the doing of it I would do it in that way.

Mr. HILL. If I had the doing of it and it was dependent on me and my vote, I would do it in that way, but I recognize the fact it has to meet the approval of the people, and consequently I have aimed for maintaining an exact equivalent in the issuance of bank notes for the retirement of the greenbacks.

Mr. ECKELS. I do not see any reason why the United States ought not to pay its debts, whether it has its debts in the shape of a bond, drawing interest, or in the shape of promises to pay not drawing interest. The funding of these legal tenders would be simply the payment of a just debt. The objection that this method of disposing of them substitutes an interest-bearing debt for a noninterest-bearing one is not a very substantial one. There is no reason why, if the Government has the property of the citizens and uses it for the benefit of the Government, the Government ought not to pay for so doing.

Mr. BROSIUS. Will the Comptroller have the goodness to explain why the Government, or even an individual, should pay a debt that costs no interest when the creditor does not want it paid?

Mr. ECKELS. An individual or the Government ought to pay a debt that is a source of danger to it, whether it bears interest or not, and it ought to have it known definitely when these debts will be terminated.

Mr. BROSIUS. Then you mean to qualify your former statement that the Government ought to pay any debt that is a source of danger? You did not have that in your other statement.

Mr. ECKELS. The Government ought to pay all of its debts, whether they are dangerous or otherwise.

The CHAIRMAN. Isn't it a fact that individuals pay debts when it is for their interest to pay them, without consulting the interest of the creditor?

Mr. BROSIUS. Can anybody ever say it is to the interest of the debtor to pay a debt not drawing interest, if the creditor doesn't want to receive it?

AUTHORIZING BANKS WITH SMALL CAPITAL.

Mr. HILL. I call your attention to section 5.
Section 5 is as follows:

SEC. 5. That section fifty-one hundred and thirty-eight of the Revised Statutes is hereby so amended as to read as follows:
"SEC. 5138. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than twenty-five thousand dollars may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than two hundred thousand dollars."

This committee has already passed a bill, and it has passed the House, providing for the organization of small banks with a possible capital of $20,000 in towns of 4,000 inhabitants. This section varies from that, limiting the capital to $25,000 in towns to 3,000 inhabitants. Personally I would prefer not to go below $25,000.

Mr. ECKELS. All the members of the committee agree in all these bills that banks ought to be allowed with a smaller capital than at present.

RETIREMENT OF SILVER CERTIFICATES.

Mr. HILL. Section 6 is as follows:

SEC. 6. That from and after the passage of this act the Secretary of the Treasury be, and he hereby is, forbidden to issue silver certificates in excess of the amount then outstanding, or of the amount as it may hereafter be when reduced by the cancellation of such certificates, because of the issuance of guaranteed national-bank notes in place thereof, as provided in section eight of this act.

That provides for the retirement of silver certificates or for no further issue of silver certificates after they are retired under section 8 of this act.

Mr. COX. How do you retire them?

Mr. HILL. Section 8 retires them.

RETIREMENT OF NATIONAL-BANK CIRCULATION.

Section 7 is as follows:

SEC. 7. That so much of section nine of an act entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty two, as reads as follows, "And no national bank which makes any deposit of lawful money in order to withdraw its circulating notes shall be entitled to receive any increase of its circulation for the period of six months from the time it made such deposit of lawful money for the purpose aforesaid: *Provided*, That not more than three millions of dollars of lawful money shall be deposited during any calendar month for this purpose: *And provided*, That the provisions of this section shall not apply to bonds called for redemption by the Secretary of the Treasury, nor to the withdrawal of circulating notes in consequence thereof," be, and the same is hereby, repealed; and the Comptroller of the Currency is hereby authorized and directed to have prepared and keep on hand, ready for delivery on application, blank notes, to such an amount as he may deem advisable for each national banking association having circulation.

I wanted to call your attention to that section in comparison with the section in the Carlisle bill which we have just had under consideration, which repeals other sections providing for the retirement of the national bank circulation. The section in the Carlisle bill and the recommendations made by the Secretary of the Treasury revive the

previously existing law, which limits the retirement to sums of not less than $9,000, which, it seems to me, and I think you would agree with me, would be a mistake, certainly for small banks. So I have only provided for the repeal of a portion of that section rather than the whole of it.

Mr. COX. Let me understand that. What is the proposition involved in that?

Mr. HILL. The proposition here is to repeal so much of the previous law as prevents the banks, when they have retired their circulation, taking it out within six months; also so much of the existing law as forbids all of the banks of the country together retiring in excess of $3,000,000 a month.

The Carlisle bill repeals the whole section, so that it leaves the previous law in force, which would prevent any bank from retiring circulation in sums of less than $9,000. If we were to have a $20,000 bank this would make an excessive sum for them to retire at once.

Mr. ECKELS. I do not think the Secretary had that in mind—I mean the small banks.

Mr. COX. The proposition to allow the organization of small banks was not before the Secretary.

Mr. ECKELS. No, it was not. But I suppose it would follow as a matter of course, when the bill was perfected upon the lines of small banks, that that provision would go.

Mr. HILL. You would not think it wise to leave that standing?

Mr. ECKELS. No.

Mr. HILL. With that thought I have drawn this section in this way, and have added at the end the provision which will require the Comptroller of the Currency to keep a supply of bills on hand at all times, which it seems to me is necessary.

Mr. ECKELS. That was also provided for by the Secretary's bill.

BANK NOTES ISSUED IN LIEU OF LEGAL TENDER.

Mr. HILL. Sections 8, 9, and 10 cover an optional privilege about which I have a little doubt myself, but upon which I would be glad to have your opinion.

Those sections are as follows:

SEC. 8. That any national bank now organized, or that may be hereafter organized, may, in place of a deposit of bonds to secure circulation, pay to the Treasurer of the United States gold coin of the United States to the sum of not less than twenty-five per centum nor more than fifty per centum of the capital of said bank, and thereupon the Treasurer of the United States shall retire and destroy a corresponding amount of the legal-tender notes or Treasury notes or silver certificates of the United States, selecting such issues in the order herein named, and thereupon the Treasurer shall cause to be issued to said national bank an equal amount of national-bank notes of distinctive color currently redeemable by said bank in gold at its own office and at the Treasury of the United States and guaranteed as to their final payment by the United States; but such guaranteed notes shall not be subject to taxation and shall not constitute a lien upon the assets of said bank.

SEC. 9. That any national bank taking out guaranteed national-bank notes, as provided in section eight, shall be entitled to receive from the Treasurer, and is hereby authorized to issue national-bank notes to an equal amount without deposit of bond security therefor, but the amount of such notes shal. at no time exceed the amount of guaranteed notes issued by the Treasurer to said bank and remaining outstanding, and such notes shall not be subject to taxation.

SEC. 10. That national-bank notes not guaranteed as to their final payment by the United States shall be of a distinctive color, and shall declare upon their face that they are secured by a first lien upon the assets of the bank by which they are issued, and said notes shall be redeemable in coin at the bank of issue and at such other redemption agencies and under such regulations as may be approved by the Comptroller of

the Currency, and all such redemption agencies shall be plainly indicated upon said notes; but such notes shall not be redeemed at the Treasury of the United States, and the United States shall not be in any way responsible therefor.

SEC. 11. That the Treasurer of the United States is hereby authorized in his discretion to use any coin or bullion in the Treasury made free by the cancellation of United States legal-tender notes, Treasury notes, or silver certificates in place of guaranteed notes, issued as authorized in section eight, for the purchase and retirement of any of the bonds or other obligations of the United States, reserving, however, such sum as in his judgment he may deem necessary for the final payment of such guaranteed notes as may become due because of the lapse or expiration of charters of banks to which such notes were issued, and any reduction of said guarantee fund not offset during any fiscal year by deposit of gold for guaranteed notes by other national banks shall be included in the estimates of the Treasury Department for the ensuing year and covered by an appropriation for the guarantee fund.

The proposition is this: That in lieu of the deposit of Government bonds any bank may pay gold to the Treasurer of the United States, whereupon it becomes the duty of the Treasurer of the United States to destroy greenbacks, Treasury notes, or silver certificates, to a like amount, in the order named—greenbacks, if he has them or can get them; Treasury notes next; and silver certificates next; and in lieu of that, the money being paid in, to issue to this bank a guaranteed note, guaranteed as to its final payment by the United States Government, but the current redemption of which the bank itself shall maintain, both over its own counter and as national-bank notes are now redeemed by the Treasury of the United States. The amount to be not less than 25 per cent of its capital nor in excess of 50 per cent of its capital; but such notes being all paid for by the banks, shall not constitute a lien upon the assets of the bank, and shall be absolutely free of tax, the theory being that such notes will be probably permanently outstanding, as a substitute for the legal-tender paper and silver certificates that are withdrawn.

Mr. ECKELS. But with the coin dollar back of each.

Mr. HILL. A gold dollar back of every one paid into the Treasury of the United States, so that they can ultimately take care of it when the charter of the bank lapses or when the bank fails, and the current redemption being maintained by the banks over their own counter. The banks make no money out of that, of course. They assume an obligation; they assume a burden by doing it; but it is practically taking up so much of the debt of the United States and maintaining the current redemption of it in gold, which the Government does now. Now, why should they do it? Why should they do that in order——

Mr. BLACK. What makes you doubt about that provision?

Mr. HILL. I do not doubt about that part of it. In order to induce them to do it or persuade them to do it, I then add in section 9 that in consideration of doing that a bank shall be allowed to issue an equal amount of their own notes, redeemable—there is but one thing in which they can be redeemed, and that is in legal-tender coin, and that means gold and silver.

REDEMPTION OF NOTES IN GOLD AND SILVER.

Mr. COX. Do you mean to redeem them in gold and silver?

Mr. HILL. Both.

Mr. COX. At the option of the bank?

Mr. HILL. At the option of the holder of the note.

Mr. COX. Do you mean the option of the holder of the notes?

Mr. HILL. I do not know whether I mean the option of the holder of the notes or the banks. It seems to me both. Either is legal tender.

Mr. ECKELS. The note holder is the man who ought to have the option.

Mr. HILL. Why? Both are unlimited legal tender, and if he understands it in the beginning——

Mr. ECKELS. It is the business of the banks to hold themselves responsible to redeem the notes in such money as the holders of them desire.

Mr. HILL. How can there be any objection to either, when the Government of the United States makes its silver and its gold equally legal tender?

Mr. ECKELS. But when the statute of the United States at the same time says that it is the established policy of the Government to maintain the two metals at a parity, it seems to me under that provision it is the duty of the Government.

Mr. HILL. But the Government is not redeeming these credit notes.

Mr. ECKELS. But you cited the Government as an illustration, and I say the Government under that provision must hold itself responsible to give a man go d if he wants it.

Mr. COX. Will you allow me a question right there?

Mr. ECKELS (continuing). Because, if the Government does not do that it does not maintain the parity of the metals.

Mr. COX. Now, you have your banks organized under that principle. The notes of the bank are issued, and the holder of the notes comes for redemption. If you confer the power upon the holder of the notes for redemption, naturally he will take the highest money. If you confer the power upon the banks, the bank will naturally pay the cheapest money. Now, will not that result in this: The holders of the notes will be in control of the highest currency for redemption, and you can not prevent it to save your life?

Mr. ECKELS. Undoubtedly they will ask for the best.

Mr. COX. Of course they will, and they will demand the best.

The CHAIRMAN. We agreed not to ask questions until we got through.

Mr. HILL. Mr. Comptroller, this is not a note of the Government; it is a note of the bank.

Mr. ECKELS. Yes.

Mr. HILL. Precisely the same as if an individual should give his note. So long as silver is legal tender is it not right and proper that this note should be redeemable in coin? The other is a guaranteed note of the Government for which gold has been paid and which by the terms of the contract is specifically redeemable in gold, but this is a credit note of the banks, issued against assets to a limited amount and redeemable in what? Is it not absolutely obligatory on these banks, if silver is called for to give silver, and if gold is called for to give gold; or, on the other hand, is it not optional for either party to do either, so long as both are unlimited legal tender?

Mr. ECKELS. I would not, Mr. Hill, in a new bank bill permit any bank note to be issued—whether it was a note against credit or a note guaranteed by the Government, if a bank did not hold itself responsible to redeem the same in gold. I would not have any "if or ands" about it.

Mr. HILL. I would not have any legal tender silver except subsidiary coin, if I could not control it myself. I would not have it legal tender. Personally I would limit it strictly to a gold basis, but I recognize the fact that we have got six hundred odd million dollars of legal tender silver. What are we going to do with it? My proposition is,

as covered by this bill, to withdraw the certificates, get it into circulation and make it a basis of redemption, equally with gold, so far as it is full legal tender, for the credit currency of the country. What can we do with it?

Mr. ECKELS. I do not know of anything that we can do with it except to go to whatever expense is necessary to maintain it at par with gold.

Mr. SPALDING. Suppose it was a five-dollar bill presented to the bank. If it was a subsidary coin, it would be redeemed in gold?

Mr. HILL. Yes. I would like to ask this question: Supposing the Ohio National Bank in the city of Washington should issue these two classes of bills, and should make the credit bills secure by their assets, and specify on their face that they are redeemable in coin in Washington and at the Chemical National Bank in New York, at the First National Bank in Chicago, and the First National Bank at San Francisco, would not that be entirely acceptable to the people of the United States, in your judgment?

Mr. ECKELS. No; I do not think the bank would run the risk of having two kinds of notes out redeemable in different kinds of money, because every time that a man got one of these reserve notes, or, as you call them, credit notes, he would go to the bank and have it redeemed, and he would insist on its being redeemed in the best money possible. It would follow that the public would be kept in constant doubt all the time as to whether the notes it had were good. I do not think there ought to be any notes in circulation where each is not interchangeable with the other without loss to anyone.

Mr. HILL. I agree with you there; but what will you do with our silver?

Mr. ECKELS. I am sure I do not know how to get rid of all that silver, Mr. Hill.

Mr. HILL. You would not say but such a note as this bill provides for, in your judgment, would be safe?

Mr. ECKELS. I would not say it would not be safe.

Mr. HILL. With coin redemption behind it?

Mr. ECKELS. I would not say that it would not be safe.

Mr. HILL. Will you say it would not be safe to this limited amount, with the first lien on the assets and secured by the double liability of the stockholder, and based on absolute coin redemption?

Mr. ECKELS. I would not say that; but I would not favor a bank note of any kind, whether it was a note issued against credit or issued on a guaranty from the Government, if it was not redeemable in gold. If we undertook to draw a distinction between the thing in which your credit note is redeemable and the thing in which your guaranteed note is redeemable at the outset, we endanger the prospect of making the credit note an acceptable note. There ought to be more safeguards placed around the credit note than around the guaranteed note.

Mr. HILL. You believe the silver certificates are strictly fiat money—substantially so?

Mr. ECKELS. I believe they are fiat money to the extent of the difference between the value of the bullion and the stamped value on the silver coin.

Mr. HILL. Do you believe it possible to maintain bank issues redeemable in gold, with the Government keeping silver certificates in circulation?

Mr. ECKELS. I should expect the Government to take care of the silver certificates.

Mr. HILL. Then what are you going to do with silver?

Mr. ECKELS. I do not know.

The CHAIRMAN. That has been answered several times already, Mr. Hill.

Mr. HILL. That is all.

The CHAIRMAN. Mr. Brosius has the floor.

DISCUSSION OF H. R. 7247.

Mr. BROSIUS. By way of preliminary, I want to say that I have always been impressed with the idea that in legislating upon the money question or on the question of banking and currency we must take into consideration existing conditions. Whatever our theory may be, for instance, of the true relation of the Government to paper money, as practical legislators we must consider existing conditions, and whatever our theory may be as to the correct principle of banking and currency, in legislating upon that subject we must also take into consideration existing conditions. In other words, the existing system having been long ago planted and deeply rooted, we can not pull it up carelessly or recklessly, and the defects in the form of tares must be removed with great care so as not to disturb the system itself. Having made that preliminary statement, I have here some inquiries I desire to make, and for the sake of brevity——

A MEMBER. What is the number of your bill?

Mr. BROSIUS. H. R. 7247. The bill is simple in its provisions, and for sake of brevity I will simply propound certain practical inquiries which will bring out the ideas incorporated in the bill.

The first one I will read.

The CHAIRMAN. This is bill H. R. 7247. [For text of H. R. 7247, see page 149.]

Mr. BROSIUS. Mr. Comptroller, in view of the extreme sensitiveness of the public mind and the ease with which it takes alarm in monetary matters at this time, is it not preferable, from the point of view of practical legislation, to increase the efficiency of the present banking system by amendments to the present law which will produce that result without creating alarm in the public mind rather than to revolutionize it by the introduction of new principles and methods in banking, the result of which in practice can only be conjectured? That is a very general proposition.

PEOPLE DEMAND NEW FINANCIAL LEGISLATION.

Mr. ECKELS. It is very unwise at any time to create any unnecessary alarm, and you are right in your statement that the public is very sensitive on the question of a radical change in banking and currency legislation. At the same time it seems to me there never was a better time for making necessary changes, even though they introduce a number of new elements, than the present, because there never was a time when there had been such a widespread discussion of the monetary question. I am sure the verdict at the last election was something more than a mere declaration that the voters did not want free coinage of silver. It was more, also, than a declaration that they were in favor of the gold standard as against the silver standard.

My intimation of that result was that they wanted some affirmative relief. It seems to me such affirmative relief can only be gained through

changes in existing banking law and in relieving the Treasury of the things which past experience has shown embarrass it, namely, the legal tender demand obligations. I think the public, even though it is necessary to introduce a number of new principles to do it, will go further to-day in sustaining departures in finance in this country than at any time within the last thirty years. It is not necessary to overturn the whole system. Nobody contemplates such a course; but there are certain things, even though they are radical, which ought now to be dealt with. I believe that the people expect it, and that that was the thing they had in mind when the result of the last election was brought about.

Mr. Brosius. Mr. Comptroller, the inquiry was very general and the answer has been equally general. I have no purpose to interpose my own views. I am simply eliciting the views of the Comptroller.

I pass to the second proposition, and that has been partly answered by what has been said already, anticipating the inquiry. Whatever may be your view, Mr. Comptroller, of the correct theory of the relation of Government to money, from the point of view of a practical legislator, taking into consideration the preponderance of the sentiment of our people in favor of retaining the greenbacks in circulation as money, would it not be wise to postpone for the time any legislation relating to the retirement of that portion of our currency by the conversion of it into interest-bearing indebtedness?

POSTPONEMENT NOT WISE.

Mr. Eckels. I am certain it is not wise to postpone doing away with a thing which very frequently has demonstrated itself to be a source of business disaster to this country. I do not believe it is wise to assume that the public would not sustain legislators in a matter of this kind, if the legislators themselves stood up and gave reasons for the faith that was in them why the thing ought to be done. In the retirement and cancellation of legal tenders is to be found the only practical way of bringing relief to the Treasury. It will not come through mere increase in revenues. If a banking bill is enacted and no provision made for getting rid of the source of the trouble, the banking situation is improved and the business interests of the country in a measure aided, but there is still left fastened on the country a growth which is a cancerous one, and which in and of itself carries elements which must in the end bring a great deal of loss and at times almost destruction to business interests.

Mr. Brosius. Are you not aware that you have proceeded in your answer upon an assumption that the greenbacks were very dangerous, and that they caused us a great deal of trouble?

Mr. Eckels. Yes.

Mr. Brosius. If I believed that I would agree with you perfectly.

Mr. Eckels. I know we differ upon the danger of them.

Mr. Brosius. Upon that point I want to ask you whether you are aware that not only a large majority of this Congress, but a large majority of the people of the United States, do not agree with you in the assumption you make?

Mr. Eckels. There is probably a large majority in Congress and a greater or less number outside of Congress who believe it is not the politic thing to do, and possibly that it is not the practical thing to do, but I am sure there is a majority of Congress who believe it is the thing which ought to be done if it could be done.

NOTES ISSUED AGAINST ASSETS.

Mr. BROSIUS. The third proposition is, Whatever may be your view as to the theory of credit currency issued against the assets of the bank, inasmuch as our people for thirty years have been accustomed to a secured currency, would it not be wise, for the present at least, and under existing circumstances, to adhere to a secured currency rather than to authorize the banks to issue notes against their assets alone?

Mr. ECKELS. I have heretofore stated that I did not think it would be wise to permit the banks to issue all their notes against their assets, but I thought they might very safely issue a limited percentage of them in such manner. I do not think it would be wise—I think it would be unwise—to permit them to issue all their notes against their assets, because that necessitates educating the people on one line and uneducating them on another, something which can not be done, except gradually.

PROPOSITIONS FOR RELIEF.

Mr. BROSIUS. The fourth proposition is, Assuming the impracticability of the retirement of the greenbacks and the issue of currency against the assets of the banks alone at this time, can we, in your judgment, do better than to first provide for the issue of currency up to par, or may be the market value, of the bond deposited to secure circulation; and, secondly, to provide for establishing banks with small capital in small towns, as we have already done; and, thirdly, to reduce the tax on circulation to about one-quarter of 1 per cent, so as to make the profits on the issue of notes sufficient to induce banks to supply the people with as much currency as they need?

Mr. ECKELS. I did not assume, Mr. Brosius, that it is an impracticable thing to retire the greenbacks.

Mr. BROSIUS. Upon that assumption I base the question.

Mr. ECKELS. I want it understood that I do not assume that, however.

Mr. BROSIUS. I understand that.

Mr. ECKELS. But upon the other point, I certainly think it would be wise as a measure of legislation, pending these other things, which ought to come as rapidly as practicable, to permit the organization of smaller banks and to permit the establishing of branch banks. In this way the facilities of deposit and discount banking could be extended. I think at one point back there, Mr. Brosius, you said something about whether or not there was any danger in the legal tender.

Mr. BROSIUS. You are proceeding upon the assumption that there was danger.

CAUSES OF PRESENT DANGER.

Mr. ECKELS. I would like in this connection to state why I think the danger from the legal tenders is increased by circumstances which surround them. If the Government possibly had had nothing outstanding but the $346,000,000, it might have gotten along without a great deal of trouble in taking care of them; but enacted legislation has produced results which have augmented what might have been the small danger of the legal tenders into a very large danger. The legislative acts to which I allude were those providing that these notes should be reissued when once they were redeemed, the Bland-Allison Act, the adding the great amount of depreciated silver currency, and the Sherman silver-purchasing act, resulting in the issuing of the silver Treasury notes. All

these as contributing causes made a thing which of itself might not have been so harmful a source of recurring danger by placing a great additional burden upon the Government to maintain the parity of the moneys which it circulated.

Mr. COX. May I ask a question right there?

Mr. BROSIUS. Yes.

Mr. COX. Now, Mr. Comptroller, is not your mind thoroughly made up and conclusively made up that no banking system can be successful unless the greenbacks of the Treasury are retired in some way or other?

Mr. ECKELS. I do not believe any banking system can be of material benefit in relieving the Treasury Department unless provision is made for getting rid of the legal tenders and Treasury issues.

Mr. COX. Now, we have got one point from your conviction settled—that the Treasury can not be relieved unless those notes are retired. When we come to the next point in the investigation of this matter, it becomes a matter much more with the banks than it does with the Government. Is not that true?

Mr. ECKELS. I do not know that I understand you, Mr. Cox.

BANKING MUST BE MADE PROFITABLE.

Mr. COX. I mean this: That to induce the banks to go into the banking system there must be a reasonable assurance of profit to induce them to go in. You have cut off and intend to stop this Treasury-note system of redemption. Now then, do not you have to offer the banks some sort of encouragement in some way?

Mr. ECKELS. No man will go into a banking system unless there is apparently a margin of profit in it. When the legal tenders are canceled, there has been removed from the channels of trade and commerce notes which to-day are directly in competition with bank notes and thus is made a larger field for bank notes, with a corresponding increase in profit from the issue of them.

Mr. COX. Of course, that must depend upon the encouragement you give to banks for a reasonable profit. Is not that so?

Mr. ECKELS. Certainly; the banks must have encouragement in the way of profit or they will not go into the system. But as I understand it, Mr. Brosius calculates that the increase in the amount of notes they can put out in issuing either to their par value or to the market value gives them an increase of profit. He would also permit the establishing of small banks.

Mr. COX. Does this bill contemplate the retirement of greenbacks and Treasury notes?

Mr. ECKELS. No; Mr. Brosius's bill does not contemplate that.

TWO CLASSES OF NOTES.

Mr. HILL. You stated in criticism of my bill that it would make it a matter of doubt in the hands of the holder—the issuing of two classes of bills. Mr. Brosius has again referred to the possibility and the advisability of the issuance of credit currency, and you stated that you were not in favor of an issue of credit currency in excess above the secured currency—I think you stated the other day in excess of 25 per cent. I would like to ask you how you are going to issue any credit currency in conjunction with secured currency without having two forms of bills?

Mr. ECKELS. Two forms of bills, but one kind of redemption money for both of them.

Mr. HILL. You do not object to two classes of bills?

Mr. ECKELS. No.

Mr. HILL. But you do object to different kinds of redemption money?

NOTES ISSUED AGAINST STATE AND MUNICIPAL BONDS.

Mr. BROSIUS. My next inquiry is, If further relief should be needed in the South and West, where the capital is less abundant and the habit of depositing current funds in banks less prevalent, is there any insuperable objection to letting banks issue notes on deposit of State or municipal bonds, in lieu of Government bonds, under such conditions as will adequately safeguard the Treasury, limiting the issue, say, to 75 per cent of the securities deposited?

Mr. ECKELS. The notes issued against these bonds would be just as good, undoubtedly, as those issued against any other bonds. The only possible danger in taking bonds other than Government bonds would be that it would encourage municipalities to issue bonds unnecessarily. But so far as the security of the notes is concerned the bonds of almost any municipality which is not distinctively what might be termed a boom town would be perfectly good.

Mr. BROSIUS. The conditions and the restrictions to which I refer——

Mr. ECKELS. But, Mr. Brosius, the people in these sections who are making the demand for this bank-note currency do not want to deposit security. They claim that such method unnecessarily ties up capital. That is the point of their objection, and I do not know whether, unless they were given notes that were not secured, they would feel any better about it than they do now, or whether they would obtain any relief.

Mr. BROSIUS. I am not inquiring so much about what these people want as to what is practical to give them. They complain, as the Comptroller is aware, that they can not get Government bonds, and unless they can bank on some other kind of securities they can not bank at all.

Mr. ECKELS. Yes.

Mr. BROSIUS. If they could bank on State securities which they already hold, they could issue their currency and it would not tie up their capital, because they would get interest just the same and simply deposit it as collateral security. They would be banking on their own capital, at the same time using the securities of the State as collateral securities.

Mr. ECKELS. I do not see any objection to that, as far as the security is concerned.

Mr. BROSIUS. Now, Mr. Comptroller, if these measures which I have suggested in these propositions were enacted into law, would not the banks now existing and those to be organized, in that event be able, and would not the profits of their issue induce them to supply communities with a suitable amount of currency which would be entirely secure and reasonably elastic?

Mr. ECKELS. Under the measures suggested you would probably get as much currency as the country could use; but whether you could always get it when most needed is another thing. The objection to a note issue based entirely on bonded securities is that you have not the means at hand of getting out the currency when it is required. For instance, at a certain period of the year you have to have a large amount of currency, and before you can get it out on bonded securities you must procure and deposit the bonds, and it not infrequently happens that before you have done this the necessity has passed by.

Mr. BROSIUS. Is there any other relief from that difficulty except to issue currency against their assets?

Mr. Eckels. None that I know of.

Mr. Brosius. Then, if it is unwise to issue currency against the assets alone we must endure the difficulty to which you have just referred?

Mr. Eckels. I suppose we will have to put up with certain banking inconveniences; but understand me, Mr. Brosius, that the point I make is that it would not be wise at the outset to issue all bank notes without deposited security, but that it would be wise to undertake to issue a certain per cent against their assets.

Mr. Brosius. In order to relieve the difficulty to that extent?

Mr. Eckels. To relieve the banking difficulty.

Mr. Brosius. I am speaking of the banking difficulty.

Mr. Eckels. But issuing notes against the assets of a bank or issuing against bond security, with no further provision, would not relieve the Treasury difficulty at all.

UTILIZING THE IDLE SILVER.

Mr. Brosius. I would like to ask one more question. If these provisions to which I have referred were embodied in legislation, would it not relieve the Treasury situation to provide for utilizing the idle silver now lying in the vaults of the Treasury and the mints, not even available for the redemption of the paper that was issued in its purchase—lying there absolutely idle—utilize that by placing it in the reserve fund and uniting it with the gold reserve, thus making a consolidated metallic fund for redemption purposes, with authority given to the Secretary of the Treasury to redeem greenbacks and Treasury notes, either in gold or in silver, to its gold value, or in silver dollars, at the option of the holder, thus doubling or practically doubling the amount of our reserve fund and making it all available for purposes of redemption, and that when the Treasury note or a greenback is redeemed in this way it shall be canceled and not reissued, except on the deposit of a corresponding amount of gold, thereby converting all those notes practically into gold certificates? Would not that strengthen our Treasury situation and help us out of the difficulty to a certain extent?

Mr. Eckels. I think that the way the silver could be of the most avail toward assisting the Treasury situation would be to sell it for gold and then make up the difference—let the Government accept a loss on it. I suppose, however, that if it was converted into gold and that gold put into the Treasury you might accomplish some relief after you had redeemed the legal tenders by not permitting them to go out, except on the deposit of gold in exchange therefor. Every legal tender would then be converted into a gold certificate.

Mr. Brosius. Is not that a good idea?

Mr. Eckels. Well, it would be better than the present situation, but it is not wise for the Government to have out any paper currency at all. The issuing of paper currency is the province of banks. You still, by that method, bring an element in competition with the banks in their note-issuing functions.

Mr. Brosius. You think that would be better than the present situation, but not so good as to entirely dispense with the paper money?

Mr. Eckels. I think it would be better than the present one.

Mr. Brosius. The Comptroller will understand that these proposals bring out the ideas incorporated in my bill and I do not take up the bill to go through it in detail, but for the purpose of brevity I have submitted these propositions.

Mr. ECKELS. In this bill you contemplate a further purchase of silver?

Mr. BROSIUS. Yes.

Mr. ECKELS. From time to time?

Mr. BROSIUS. I think I would modify that provision. I made no inquiry about that.

Mr. ECKELS. Your design would be to make the present silver available?

Mr. BROSIUS. To make the silver that is now idle and utterly useless available to splice out the gold reserve that has been inadequate in the past.

The CHAIRMAN. We have got about forty-six minutes left. I would like to take about five minutes myself in asking a few questions. Mr. Cox, have you any questions to ask?

Mr. COX. I want to get at that point clearly.

The CHAIRMAN. Please remember that the time is short.

Mr. COX. I will be brief, Mr. Chairman.

NOTES REDEEMED IN SILVER.

The principle involved in that idea is that you utilize, or try to utilize, the silver you have in the Treasury, for the purpose of the first redemption, when these Treasury notes come in. Let us get the facts right.

Mr. ECKELS. I take it that Mr. Brosius's idea is to take the silver bullion which is deposited there and unite it with the gold in the Treasury, both to be used as a redemptive fund. Whoever gets silver in redemption of his notes gets the quantity as measured by its gold value, and whenever a note comes in under those circumstances it is canceled and can only be gotten out again by a deposit of gold. It is not unlike the rule observed by the Bank of England. The plan is that in this manner every Treasury issue, legal tender or Sherman note, becomes a gold certificate. You do not design, Mr. Brosius, to permit these notes to be reissued on a deposit of anything but gold, do you?

Mr. BROSIUS. No.

Mr. ECKELS. Not with silver.

THE TREASURY A BROKERAGE SHOP.

Mr. COX. That is the way I caught the point. Now, let us see how it works. I stop in there with one of the Treasury notes, and I say I will take so much gold for this note, or I will take so much silver, at a certain value for the silver compared with gold. Now, when I make that proposition, practically the Treasury decides which way they will pay me. For illustration, they pay me the silver, and I take the silver out and they have got the notes. Now, when I come back to redeem that note, I have got to pay in the gold?

Mr. ECKELS. Yes.

Mr. COX. Now, then, watch. Does not that make the Treasury an absolute broker shop as to the price of silver and gold?

Mr. ECKLES. It makes the man who presents his note a purchaser of silver of the Government.

Mr. COX. Yes, sir; and then when he wants to get rid of that silver he gives back and demands the gold. You have got a Treasury that is nothing in the world but a brokerage shop.

Mr. ECKELS. That is what it has been, only the Government has been buying the silver instead of selling it.

Mr. Cox. I agree with you, but that does not answer the question.

Mr. Eckels. The Government has been doing that thing.

Mr. Cox. There is no question about that, and I think it the most erroneous thing in the world; but at last the man comes with his Treasury notes and he says, "I will take silver at a certain price," and he gets it. Conditions change, events turn around, and he brings that back and demands the gold. Does not the Treasury have to pay in the gold?

Mr. Eckels. He brings the silver back and demands the gold?

Mr. Cox. He brings his certificate back.

Mr. Eckels. He takes his certificate there in the first instance and gets silver.

Mr. Cox. Pardon me there, for fear we will not understand each other. I am treating the certificate as a representative of silver.

Mr. Eckels. The certificate has gone into the Treasury and has been canceled, so if he wishes to get it out again he must go and deposit gold for it. Is not that your purpose, Mr. Brosius?

Mr. Brosius. Certainly.

The Chairman. Is not that the Comptroller's answer?

Mr. Cox. Probably it is to the chairman.

Now, I have got the man there, and he says, "I will take the silver for it."

Mr. Eckels. He surrenders his certificate.

Mr. Cox. Yes. Now, that is the silver; and afterwards he comes back with the silver and demands a gold certificate and the Government has to give it to him?

Mr. Eckels. No; the Government does it now. The Government does not do it under Mr. Brosius's bill.

Mr. Cox. What does it do?

Mr. Eckels. It says: "You can have your certificate if you will bring me gold for it. But you can not get it with silver."

Mr. Cox. If he can not work the silver out he can not get any redemption for his certificate. He can not get the gold.

Mr. Eckels. He gets the silver in place of it, if he wants silver instead of gold.

Mr. Cox. The man gets his silver and he takes that out. Now he comes back to the Government with his silver.

Mr. Brosius. He can not do it under my bill. If he takes the silver, he would dispose of it. He would only want it for export and he would have no motive to bring it back.

Mr. Cox. Suppose he does not take that view of it?

Mr. Brosius. He must take a correct view of it.

Mr. Cox. Well, suppose he does not take your view of it, and he brings it back to the Government and says, "Here is my silver. I demand the gold." What is the Government going to do?

Mr. Eckels. The Government says that it is not issuing certificates except on a deposit of gold.

Mr. Cox. Therefore the silver must stand its chance with the parity of gold?

Mr. Calderhead. And the gold would go to a premium at once.

Mr. Cox. Of course it would; it would be at a premium in twenty minutes.

Mr. Fowler. I understand that Mr. Brosius's bill repeals the act whereby the Government has to maintain the parity of the metals.

Mr. Brosius. Not at all.

Mr. Eckels. As I understand Mr. Brosius's bill, the silver is not

coined. It provides to give so much silver bullion in exchange for certificates. The Government sells its bullion to these certificate holders.

Mr. BROSIUS. The man who goes there to have his notes redeemed has a motive. He wants to ship it abroad and pay some balances. If he uses it for that purpose, it is done for; he would have no occasion to return; but if he chose to buy silver and bring it to the Government he could get silver certificates for it, but not gold certificates. Having been redeemed, that paper is canceled and can only be resurrected when somebody deposits that much gold.

Mr. COX. He carries his silver certificates back?

Mr. BROSIUS. No; he does not.

The CHAIRMAN. He has not got any silver certificates.

Mr. COX. Suppose he gets the silver?

Mr. ECKELS. What Mr. Cox would like to know is, if he got the silver could he take the silver back and get a silver certificate?

Mr. BROSIUS. The bill does not interfere with the silver certificates at all. It contemplates the continuance of silver certificates, but if any man has silver now he can go to the Government and get a silver certificate for it. This bill does not provide for any retirement of silver certificates at all.

Mr. JOHNSON. I think it is misleading.

Mr. COX. It has misled me.

Mr. ECKELS. When we were discussing the provision of Mr. Brosius's bill relative to the silver bullion now in the Treasury, I said I thought the best thing would be for the Government to sell that silver for gold, and accept its loss and make up the difference. Mr. Brosius reaches the same result so far as that silver is concerned, only he would sell it at retail and I would sell it at wholesale.

Mr. BROSIUS. To be determined by the market price at that time.

Mr. ECKELS. Yes; the market value in gold. That deals with the bullion alone. No provision at all is made to in any wise change existing conditions so far as the silver certificates are concerned; they are only issued against silver dollars coined.

Mr. FOWLER. Mr. Brosius just said that if any man went to the Government with that same bullion, the price having changed, he could deposit all that bullion.

Mr. BROSIUS. No; he must treat that silver just as anybody else who takes that to the mint.

Mr. ECKELS. He can not.

Mr. BROSIUS. We are not buying silver now, and under existing law he could not. I had in my mind that we were still issuing certificates for silver, but we are not under existing law, and he could not bring it to the Government because the Government is not buying silver.

SECURED CURRENCY NOT ELASTIC.

Mr. FOWLER. Mr. Eckels, in answer to Mr. Brosius's question with regard to a secured currency by municipal bonds, I think you stated it could be elastic. Can any secured currency be elastic?

Mr. ECKELS. No; I said it could not be elastic.

Mr. FOWLER. I think the way you said it will give the impression that you said it could be elastic, and give the requisite amount of money in the different localities of the country.

Mr. ECKELS. I did not speak about the elasticity of such a system, but I stated that probably for ordinary times there would be enough currency gotten into circulation. The difficulty with all bonded security

is, at the time an emergency might arise you could not get the increase of circulation necessary to meet that emergency, because you would lose so much time in purchasing your bonds, etc. I explained the matter at some length in answer to a previous question put to me.

STATE AND MUNICIPAL BONDS.

Mr. FOWLER. Does not the condition of the national banks of the country show that none of the national banks in the South and West and Southwest and Northwest hold any kind of municipal bonds?

Mr. ECKELS. They do not make a specific showing on the subject.

Mr. FOWLER. They do not, except buying and selling them for immediate use.

Mr. ECKELS. I do not know exactly what the character is of the stocks or bonds they carry.

Mr. FOWLER. The point is this: That in the East national banks invest a portion of their assets in bonds and many of their investments are convertible in the stock exchange, while the banks in the newer portions of the United States, or in those parts of the country where they have less money in the form of capital to deposit in banks, do not have any investment in the shape of county, State, or city bonds.

Mr. ECKELS. I think most of the bonds of municipalities and State bonds are held in cities in New England and in New York.

Mr. FOWLER. They are not held by the Western banks at all. Take the States beginning with Virginia and sweeping on around and taking in Texas, Kansas, Nebraska, Dakota, Minnesota, and Ohio, if you please, outside of the cities; do those banks hold any municipal bonds as investments?

Mr. ECKELS. Comparatively speaking, very few. Most of them are held in places where there is a surplus of investable capital that can be put into bonds.

Mr. FOWLER. That is it, exactly. Now, another question on that scheme. Would there be any possible inducement whatever for any national bank anywhere in the United States where the rate of interest was, say, 8 per cent, or even 6 per cent, to buy bonds of a municipal character and then issue 75 per cent of those in currency, considering the rate at which the bonds are now held in the West? Good bonds run from 4 to 5 per cent. Would there be any possible advantage in buying bonds and lending the money that the Government would give you against lending your own money out?

Mr. ECKELS. There would be the same objection, I imagine, that arises from investing so much money in Government bonds and only getting 90 per cent.

Mr. FOWLER. It is no step forward at all, is it?

Mr. ECKELS. I suppose Mr. Brosius's idea was that it would enlarge the field of investment in the establishment of banks.

Mr. FOWLER. But if it was not a source of profit?

Mr. ECKELS. They would not take out circulation; of course not.

Mr. FOWLER. They would loan their own money. You have the same amount of money, and if you have paid $100 for $75 in currency you have lost $25, haven't you?

Mr. BROSIUS. My friend forgets that the banks of the United States to-day hold, in stock and miscellaneous securities, about $195,000,000. A large proportion of that is drawing interest at the rate of between 4 and 5 per cent. Those banks are largely investing their capital in security at 4 and 5 per cent. It does not take any more money to buy

municipal or State bonds than it does to buy railroad bonds. If they can take that and issue 75 per cent of that in currency, I think they are making money.

Mr. FOWLER. Now, it is a physical fact that entirely disposes of your proposition, when it is known, as Mr. Eckels has already stated, that none of those securities are held in those localities where the people are crying for currency. They are held in New England and New York.

Mr. BROSIUS. But they are; that is not a fact.

The CHAIRMAN. This is not in the line of the investigation. Mr. Eckels is here giving his views, and we are not discussing among ourselves.

Mr. FOWLER. Is it not a fact, Mr. Comptroller, that the bonds held by national banks are held in those localities where there is no need of additional currency at all?

Mr. ECKELS. I have already said that a majority of them are held in the East and in New England. But I suppose Mr. Brosius's idea is that if these bonds were permitted to be used for circulation, there would be more inducement for home people to buy them.

Mr. FOWLER. But, as a matter of fact, to-day they do not buy them at all.

Mr. ECKELS. No; such bonds are all sold, or at least the most of them, in New York City. They are bought in large blocks and from there distributed to people who wish to make investments in other parts of the country for the purpose of having a fixed income.

MISCELLANEOUS STOCKS HELD BY NATIONAL BANKS.

Mr. BROSIUS. Please allow me one word there. He has stated that these securities were not held in the sections of the country where they were demanding increased banking facilities and more money. I hold in my hand the statement compiled from the report of the Comptroller of the Currency for all the Southern States—22 of them—with the amount of stock and securities held by each one, showing that in every State considerable amounts of these miscellaneous stocks and securities are held by the national banks.

Mr. FOWLER. Will you give those statements with the amount of stocks and bonds?

Mr. BROSIUS. Yes, sir; they are as follows:

States.	Stocks and securities.	States.	Stocks and securities.
Virginia	$1.157,518	Louisiana	$2,229,525
North Carolina	316.603	Texas	1,362.977
South Carolina	931,496	Arkansas	117,671
Georgia	823,814	Montana	1,231,133
Florida	744,427	Wyoming	217,961
Missouri	7,040,668	Colorado	1,725,506
South Dakota	621,154	Utah	273,093
Nebraska	1,205.022	Nevada	9.565
Kansas	944.988	Idaho	517,488
Tennessee	970.020	Washington	1,149.172
Alabama	1,152,953		
Mississippi	414,522	Total	25,157,276

Mr. CALDERHEAD. While the banks in the 22 Southern and Western States hold $25,157,000 in stocks and securities, I would like to add to that statement that the banks in the 23 Northern and Eastern States hold $165,635,000 in stocks and securities.

Mr. FOWLER. Isn't it a fact that these bonds that you speak of are held in the large cities of those States by the large banks, and not by the country banks?

Mr. BROSIUS. They do not have large cities there.

Mr. ECKELS. As a general thing the city banks hold more stock than country banks, but I do not know how much of the kind of stock which he enumerates.

Mr. FOWLER. Is it not a fact that a great many bonds are temporarily bought by national banks simply for the purpose of negotiation in those Southern States, and they do not expect to hold them, but expect to sell them?

Mr. ECKELS. My idea is that as a rule all the bonds of municipalities and States are handled by stock brokers and bond houses in New York, Boston, or other large cities. They are bought there in their entirety.

Mr. FOWLER. Is it true, Mr. Eckels, that these bonds are bought much more by banks, who first buy these issues and then go on to New York and negotiate them?

Mr. ECKELS. Most of them are bought by the houses that make that their business. The percentage of municipal bonds held by the banks is not very large.

Mr. FOWLER. Is there anything in the reply that Mr. Brosius made to show whether these are railroad bonds?

Mr. BROSIUS. Nothing at all. They are designated as miscellaneous stocks and securities., It would not take any more or any less money to buy them than to buy railroad bonds.

Mr. FOWLER. But it does not necessarily follow that those are covered by your bill.

Mr. BROSIUS. I do not know how many municipal bonds; but it does not take any more money to buy municipal bonds than railroad bonds.

CREDIT CURRENCY.

Mr. FOWLER. I understood you to say to-day (or the other day), by intimation—and if I am mistaken I would like to be corrected—that you thought any principle of secured currency was unsound and not a proper basis of currency.

Mr. ECKELS. That it was not a correct banking principle.

Mr. FOWLER. Do you think it would be prudent to allow the banks of this country now, having become accustomed to a system of secured currency, to at once adopt the system of credit currency without the supervision of some public official as to their right and privilege to take it out?

Mr. ECKELS. No, I should not permit it at all.

Mr. FOWLER. You would leave it under the supervision of public officials?

Mr. ECKELS. Yes; I think the issuance of currency ought to be superintended by public officials, whether it is secured currency or unsecured currency.

Mr. FOWLER. As I understand you, in answer to Mr. Hill's measure, I think it was, you stated that, in your judgment, granting them the privilege of taking out, say, in the outset, 20 or 25 per cent of credit currency, such 25 per cent should be under the permission or control of a public official?

Mr. ECKELS. Yes.

Mr. FOWLER. And that, having once started upon the course of

credit currency, the result of the system should be an evolution into a credit system entirely against a secured system?

Mr. ECKELS. I believe that would be the final outcome.

Mr. FOWLER. But that it should be one of evolution?

Mr. ECKELS. Yes.

The CHAIRMAN. I would like to ask a few questions that will perhaps interest the committee.

If you turn to page 5 of your report you will find a heading, "Summary of the state and condition of every national bank reported during the year ending October 6, 1896," and then the last column at the right, October 6, 1896, gives the last report. That is on page 10. Turning over to page 15, here at the bottom of the page it says, "The condition of State banks and banking associations." Now, is it fair to write in there, "Conditions of State banks of loan and discount?" Are you comparing those banks—State banks—doing the same kind of business as the banks you report as national banks, on page 10?

Mr. ECKELS. It is virtually the same kind of banks, because you see there is a separate report as to the condition of savings banks.

Mr. BROSIUS. Where is the comparison made to which you refer?

The CHAIRMAN. It is not a comparison, but statistics on page 10 and on page 15.

On page 19, the second table, it says 9456—all banks. That does not include the savings banks. Those are the same banks you refer to on pages 10 and 15, are they not?

Mr. ECKELS. No; with the addition of the savings banks.

The CHAIRMAN. Do you mean to say that the savings banks are not included?

Mr. ECKELS. Yes; on page 19. You find on page 17——

The CHAIRMAN. But you will find on page 10 the loans and discounts on October 6 are given at $1,893,268,829. You will find on page 15 the loans and discounts are given as $2,348,193,077. You add those together and it gives you the same $4,000,000,000, or about that, so that is what I want to have explained. It seems to me that if the table at the bottom of page 15 is of the loan and discount banks, then certainly the table on page 19 does not include savings banks. When you correct your testimony, please make that clear; and so I pass on. You will see that your $1,800,000,000 added to your $2,200,000,000 will make about the same as your total of all loans, State and national, on page 19.

Mr. ECKELS. I do not think it does include the savings banks.

The CHAIRMAN. Then it is safe for me to assume, in any estimates or figures or investigations I may make, that this table on page 19 includes the loans and capital and cash, etc., of all discount banks, whether State or national. One word further. That is the word "cash." In this second table, page 19, how much of that is gold, or is it gold and silver, or what is it?

Mr. ECKELS. It includes all kinds of cash.

The CHAIRMAN. Fractional and everything else, and do they hold as much as $512,000,000 clear from certificates, or do you count gold certificates?

Mr. ECKELS. Yes; all kinds of cash.

The CHAIRMAN. It counts all forms of metallic money or certificates of metallic money. Is that the idea?

Mr. ECKELS. Yes; specie and other currency held by the national banks on July 14, and by other banks about the same time, amounted to $135,000,000.

THE CARLISLE BILL.

The CHAIRMAN. In the first place, I want to ask whether this bill reported by Mr. Cox has been materially changed as to the amount of greenbacks that are required to be deposited in proportion to the currency issued, or as to the currency to be issued, whether it remains the same as when Mr. Carlisle presented it?

Mr. ECKELS. I think it is the same bill, with some changes to it; I do not know whether any changes have been made in it or not.

Mr. COX. On the question of currency it is the same bill.

The CHAIRMAN. Look at the statement of Mr. Carlisle on page 29 of the report of the hearing before this committee on December 10, 1894. Mr. Carlisle said, in reply to my question—I read as follows:

> Mr. WALKER. Have you thought of how long a time it would take to retire the greenbacks?
>
> Mr. CARLISLE. It might be done in twenty years or it might be done in five or six years.

The CHAIRMAN. Now, the point is whether you would proceed with legislation upon the theory that it would take twenty years or five or six years.

(After a pause.) Well, as you do not answer, my question can be put down and no answer need be put down.

Mr. COX. I want to say——

Mr. ECKELS. I think that is a question that Mr. Carlisle ought to answer.

Mr. COX. I want the answer of Mr. Carlisle put in the record.

The CHAIRMAN. I have the floor.

Mr. COX. I think it is proper——

The CHAIRMAN. The gentleman is out of order.

This bill—the Cox bill—temporarily confines the legal tenders, but it does not destroy them. They still remain in sight of the people in the Treasury as a deposit, do they not?

Mr. ECKELS. Yes; they are kept there as a deposit.

The CHAIRMAN. And in the eyes of the people the same as the silver is that they are now clamoring should be paid out, notwithstanding the certificates are out against it. Do you think that is a wise policy?

Mr. ECKELS. I have stated that I think those things ought to be paid and cancelled and gotten out of the way.

The CHAIRMAN. Isn't it a fact that the bill H. R. 171——

Mr. COX. I rise to a question of personal privilege.

The CHAIRMAN (continuing). Does not transform the legal-tender notes of the Government into bank currency?

Mr. ECKELS. I think the provision of your bill is to change the form of them. I think that the Secretary's bill, or Mr. Cox's bill——

Mr. COX. It is the Secretary's bill.

Mr. ECKLES (continuing). Provides for the retirement of the legal tenders by reviving the old statute that so many should be retired in accordance with the percentage of bank notes issued.

The CHAIRMAN. But in the first instance——

Mr. ECKELS. They are deposited as a security.

The CHAIRMAN. One further question.

Mr. COX. I rise to a question of personal privilege.

The CHAIRMAN. The objection to the use of bonds is covered by bill H. R. 171. Is not the security equally a Government security when the Government is obligated to pay upon the insolvency of the bank,

and as sure and as positive as holding a bond which the Government does for the money—is not that practically the same security for the notes?

Mr. ECKELS. I would just as lief have the Government's guaranty as the bond.

The CHAIRMAN. Now, Mr. Cox.

Mr. COX. Now, let us put everybody square on this question. I read the answer of the Secretary to which Mr. Walker referred. It is as follows. Mr. Walker put this question:

> Mr. WALKER. Have you thought of how long a time it would take to retire the greenbacks?
>
> Mr. CARLISLE. It may be it would take twenty years, and it might be done in five or six years. If the proposed law had been enforced during Mr. Cleveland's last Administration or during Mr. Harrison's Administration, the greenbacks would have been retired.

The CHAIRMAN. That is expressing an opinion.

Mr. COX. That is an expression of opinion, but he has as much right to express an opinion as you have. That is on page 29.

Mr. ECKELS. I do not think the Secretary of the Treasury thought this was the best way of getting rid of them, but it seemed, at the time the plan was offered, a commencement.

Mr. COX. I do not; but he is doing the best he can.

ARE THE GREENBACKS DANGEROUS?

Mr. SPALDING. Mr. Comptroller, you seem to have indicated in all your answers and questions pertaining to the greenbacks that the Government was in danger because they were out. Now, is it not true that there was no danger or apprehension of danger up to March 4, four years ago; that up to that time there was no danger and there was no raid on the Treasury, and the greenbacks were doing their usual duty of a currency with the people, and the people were well satisfied with them?

Mr. ECKELS. There was danger then, but it was not so apparent. The conditions which developed it had not reached the proportions which they have since reached, in the fact that the burden resting upon the Treasury in the maintaining the parity of metals was not so great as it has been during the past four years. We have to deal with conditions as we find them to-day, instead of with the conditions of four or five years ago. If the condition may have been all right four or five years ago, it is all wrong now.

PROPOSED BOND ISSUE OF THE HARRISON ADMINISTRATION.

Mr. JOHNSON. Is it not a fact that during the last part of the Harrison Administration the receipts of gold for customs payment largely fell off, and a large number of greenbacks and Treasury notes were presented to the Treasury, and gold drawn out of the Treasury on them?

Mr. ECKELS. Yes; and it is a further fact that in the last report made by Mr. Foster, the then Secretary of the Treasury, attention was called to the fact that there was an inadequate supply of gold and inadequate means given to the Secretary of the Treasury to provide gold to meet the additional burden put upon the Treasury through the issuing of the Sherman notes. Not only that, but the bond plate had been already prepared for the purpose of issuing bonds to obtain the gold.

Mr. JOHNSON. It is the fact, then, is it not, that the drain upon the gold in the Treasury, while it had not gotten down to the point of reaching the gold reserve, had been steadily going on during the last months of the Harrison Administration?

Mr. ECKELS. Yes; it commenced in 1892.

Mr. COX. I want to put this question to the Comptroller: I want to ask him if it is not a fact in the history of the Treasury Department that during the Harrison Administration, when the greenbacks were presented, those greenbacks, amounting to several hundred thousand dollars, were redeemed in silver by the Administration of Mr. Harrison?

Mr. ECKELS. I am sure I do not know as to that.

Mr. COX. Call the Treasurer here and he will tell you that is so.

Mr. HILL. I want it to go into the record right here that the statement made by Mr. Dingley last year, in connection with this matter, was—and I think in connection with the statement made by the Comptroller it should go in here—that Mr. Foster came to the Ways and Means Committee in 1892 and said that there would be sufficient revenue to meet the expenses of the Government; but that after the election of 1892 was over the falling off in revenues was so great that he came to that committee in February, 1893, and said that there would probably be a deficiency of $50,000,000 in the revenues, and it was for that bonds were to be issued.

GREENBACKS AN EXPENSIVE CURRENCY.

Mr. SPALDING. Is it not true that the greenback is a cheaper currency than any credit currency or national-bank currency?

Mr. ECKELS. No; it is the most expensive currency ever floated in this country.

Mr. SPALDING. How much has been paid out in gold in the redemption of greenbacks under this Administration?

Mr. ECKELS. I do not remember the exact amount.

Mr. SPALDING. Four hundred and forty million dollars, in round numbers.

The CHAIRMAN. It is all a matter of record.

Mr. SPALDING. No; it is not all a matter of record.

How much gold was put into the Treasury by the exchange of greenbacks for gold?

Mr. ECKELS. I can not say.

Mr. SPALDING. I have it direct—$195,000,000 and over. Add $195,000,000 to the deficit which occurred and it would almost account for the entire gold, with the greenbacks, would it not?

Mr. ECKELS. I do not think so.

Mr. SPALDING. Add $195,000,000 to a deficit of $180,000,000 or $190,000,000, and it makes pretty near the amount taken out of the Treasury. I have that and can furnish it.

Mr. ECKELS. You had better put it in the record.

The CHAIRMAN. Suppose you get your certificate to that effect and put it in the record.

Mr. SPALDING. I don't need any certificate. You have furnished no certificate for a great many of your statements.

Would it be a safer currency issued on any of the assets of the banks, even 25 per cent, as the present currency?

Mr. ECKELS. A safer?

Mr. SPALDING. Yes.

Mr. ECKELS. No; you could not get a safer currency as long as the Government meets its obligations. No one has ever questioned the safety of the present national-bank currency.

Mr. SPALDING. That is true, because the notes are redeemed by the Government in greenbacks, which are lawful money. Now is it not true

if you have $450,000,000 in greenbacks and you keep $100,000,000 there are $350,000,000 upon which you pay no interest; and under the national-bank system they do pay interest on the currency, inasmuch as they pay interest on their bonds?

Mr. ECKLES. You do not pay interest in the form of interest on bonds, but you lose interest on the reserve you keep and you pay interest on that which you have to use at certain times to maintain your gold reserve. Thus when you come to estimate the expense, the expense is larger by not paying and canceling them. Then, too, there is no end to the number of times the same process is gone through with.

Mr. SPALDING. Bonds are issued, not for the purpose of a circulating medium, but for sale by the Government on account of its necessities; and they were bought by the banks and put up as security for their notes, and they drew interest on their bonds and drew interest on their issue. Is not that true?

Mr. ECKELS. Yes.

Mr. SPALDING. Is not that a more expensive system than the other?

The CHAIRMAN. Your time is up.

Mr. COX. I want this point clearly understood, that during the Administration of Mr. Harrison the plates were prepared for bonds to redeem those greenbacks, and not only that, but Mr. Foster, his Secretary of the Treasury, did redeem a large amount of greenbacks in silver. Is not that the fact?

Mr. ECKLES. I do not know anything about any redemption in silver. I know that Secretary Foster held to the idea that the Treasury Department, with the increased amount of demand obligations standing against the Government and without any additional power vested in the Secretary to provide gold, was approaching a condition of embarrassment, and that legislation ought to be had upon the subject, and that it was the purpose to issue bonds under the then existing laws relative to maintaining the gold reserve.

Mr. COX. I understand.

Mr. ECKELS. Mr. Hill says it was for current expenses, but if it was for current expenses it was under a provision of law to provide a gold reserve against the payment of these notes.

Mr. COX. I do not want to press the point any further except to emphasize this: That in the Administration of President Harrison silver was paid out when greenbacks and Treasury notes were presented. They paid these notes off to the extent of $700,000 in silver.

Mr. ECKELS. I do not know anything about that.

Mr. NEWLANDS. Mr. Eckels stated that in his judgment the silver now in the Treasury ought to be sold and turned into gold. He said that the difference between himself and Mr. Brosius was that Mr. Brosius wanted to sell it at retail and he proposed to sell it at wholesale. Now, I want to question Mr. Eckels somewhat upon that—as to how he would do it, and as to what effect it would have, etc.—and I would like to have an opportunity to ask some questions on this line.

Mr. ECKELS. That was in connection, Mr. Newlands, with the provision in Mr. Brosius's bill where he provides a certain way of getting rid of the greenbacks, and I said I preferred the other way, as between the two. That is simply in connection with the provision in Mr. Brosius's bill.

Mr. CALDERHEAD. When Mr. Eckels returns, on Thursday, I want to inquire about how much the suspension of gold payments by the subtreasury in paying its balances, as it occurred once, had to do with the loss of the gold in the Treasury.

Thereupon, at 3.15 p. m., the committee adjourned.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., Thursday, February 18, 1897.

The committee met at 10.30 a. m. Members present: The Chairman (Mr. Walker) and Messrs. Brosius, Johnson, Van Voorhis, Fowler, Spalding, Calderhead, Hill, Cox, Stallings, and Hendrick.

Hon. James H. Eckels, Comptroller of the Currency, appeared before the committee and concluded his statement begun on January 28, 1897.

STATEMENT OF HON. JAMES H. ECKELS, COMPTROLLER OF THE CURRENCY—Continued.

The CHAIRMAN. Mr. Fowler has the floor and will proceed to interrogate Mr. Eckels on House bill 6442. [For text of bill see page 107.]

Mr. FOWLER. Mr. Eckels, in your opinion is it not true that the chief source of our financial troubles to-day is that our national credit is in doubt?

Mr. ECKELS. I believe the most of our financial difficulties have sprung from that fact in the past several years, and while it is not so patent to-day as it was some months since, the danger that the same conditions are liable to occur makes it a source of doubt.

The CHAIRMAN. That is, doubt to-day?

Mr. ECKELS. Yes.

Mr. FOWLER. Is it not your opinion that the injury to our credit is mostly due to the fact that it is still a debatable question whether the United States will maintain gold payments of all its demand obligations?

Mr. ECKELS. I have no doubt with a great many people the continual suggestion that we are going to have another campaign upon the same lines as the last has created in their minds a question as to whether or not we might not be brought to a silver basis, although I myself do not believe we will ever get that far.

GOLD AND SILVER REDEMPTION.

Mr. FOWLER. Is it not your opinion that this debate will continue until this Government takes some decisive step looking to its construction of the word "coin" and determining definitively that our dollar is 25.8 grains of gold, nine-tenths fine, and not 50 cents' worth of silver bullion?

Mr. ECKELS. I think that is determined already, so far as the law on the statute book is concerned, but I imagine that in the minds of a great many people who are either doing business living here or doing business with us from abroad, there is a doubt in the midst of all this agitation as to whether or not we will maintain it at that point.

Mr. FOWLER. To what law do you refer when you say it is determined by law already?

Mr. ECKELS. We have here as a standard of value the gold dollar established by the act of 1873, though recognized as a matter of fact long before that act. The word "coin," however, as used in the bonds and as used in the Treasury's legal-tender paper, is not definitely decided as a matter of law to mean gold. It is only as a matter of practice on the part of the Secretaries of the Treasury. The attaching of that meaning to it, though, is emphasized by the statutory declaration that the established policy of the Government is to maintain the parity of the two metals.

Mr. FOWLER. Is it not a fact that the silver dollar is coin and silver is a legal tender?

Mr. ECKELS. Yes.

Mr. FOWLER. Does not that fact leave this whole matter one of argument and conclusion rather than distinct declaration?

Mr. ECKELS. Yes; it unfortunately is left as a matter of discretion, largely, with the Secretary of the Treasury, acting under the advice of the President, as to whether he shall redeem the Government's obligations in silver or gold, although the law is on the statute books that the policy of the Government is to maintain the parity of the two metals.

Mr. FOWLER. If perchance the Secretary of the Treasury should construe his power and the law to mean silver as well as gold and redeem in silver, what effect would that have upon our standard of value?

Mr. ECKELS. It would bring us to a silver basis.

Mr. FOWLER. You say it is purely a matter of construction for the Secretary of the Treasury?

Mr. ECKELS. Yes, as to what the word "coin" means. I myself do not see how a Secretary could construe it to mean anything else than gold if he took into consideration that which was the standard of value and the current coin at the time the obligations to be paid were issued; still, it is a matter of construction.

Mr. FOWLER. Is it not a fact that a large portion of public men to-day are complaining because of the construction of the present Secretary of the Treasury, and that the true construction is silver as well as gold?

Mr. ECKELS. Undoubtedly there are a large number of men who take the position that the proper construction of the work "coin" is that it means silver as well as gold.

Mr. FOWLER. That it is not only his power but that it is his duty to redeem in silver?

Mr. ECKELS. That is the way they hold, but no Secretary of the Treasury has ever thus far held so.

Mr. FOWLER. Is it not your opinion, even though we fix definitely the value of our dollar so that there could be but one construction put upon it, yet if we allowed the demand obligations of the Government to remain outstanding, that that would constantly jeopardize the credit of the Government and the entire business interests of the country as well?

Mr. ECKELS. I have taken the position all through this discussion that as long as the demand obligations of the Government are unpaid and uncanceled we are in danger. It is not enough to simply have it reemphasized that the construction which has been placed by the various Secretaries of the Treasury upon the word "coin" means gold. That in itself does not uphold our credit. It but assists to that end. We must have in addition to that such a system as will enable the Government to make of the declaratio something more than a mere declaration. The Government must be possessed of the means of doing everything necessary to meet in an instant the demands upon it. On the other hand, the Government's credit is not assured until it is rid of the causes which make it a matter of doubt whether the Government can maintain itself in its gold payments. It must, in order to possess the completest confidence, cut loose from those things which the business public look upon as weakening to its financial stability. The business public to-day so regards the Government's currency issues.

Mr. FOWLER. That is, we must have such a condition as to render it practically impossible for the Government to go to a silver standard?

Mr. ECKELS. Yes. As a matter of fact, we certainly have been on a gold basis for over sixty years.

Mr. FOWLER. Is it not your opinion that the issue and redemption of all paper currency should be thrown on the banks of the country?

Mr. ECKELS. Yes.

Mr. FOWLER. Is it not your opinion that to permanently establish in our foreign and domestic commerce the gold standard as our measure of value, you must compel all the banks to currently redeem their obligations in gold coin or its equivalent?

Mr. ECKELS. I would not permit any bank to issue notes without compelling it to redeem them in gold, and of course if the banks redeem their notes in gold it would be of benefit to us in our commercial relations.

Mr. FOWLER. Do you not believe that the sections of bill H. R. 6442 which provide for funding the national debt into 2 per cent gold coin bonds, the retirement and destruction of all the demand obligations of the Government, and the redemption of all our paper currency by the banks in gold coin or its equivalent would settle our standard of value, place the credit of the nation beyond all question, and prove a source of the greatest possible stability to our business interests?

Mr. ECKELS. Well, that is a very sweeping sort of question.

Mr. FOWLER. I will read it again.

Mr. ECKELS. I get the full force of it.

Mr. FOWLER. It only covers the points I have been over.

Mr. ECKELS. I have no doubt, Mr. Fowler, that the funding of our present bonds into 2 per cent gold bonds would establish beyond question that the policy of this Government was to maintain the gold standard of value, and I have no doubt that the funding of legal tenders into gold bonds would do the same thing; that it would be a practical measure of relief to the Government in the end.

The CHAIRMAN. Do you include in that the Treasury notes and silver certificates?

Mr. ECKELS. Yes; all the Treasury paper. I mean what are known as Treasury notes; I am not speaking of the silver certificates. I include the Sherman notes.

Mr. BROSIUS. Sherman notes and greenbacks?

Mr. ECKELS. Yes. If the United States went to the extent of funding its coin bonds and funding its legal-tender paper, no one would ever again doubt but that this was a Government which believed very emphatically in the maintenance of the gold standard of value and in gold payment of all obligations. It is an essential thing for the maintenance of national and individual credit to have it known beyond question that it is proposed to maintain at any cost gold payments for all our obligations. This nation can not afford to take advantage of any technicalities in the definition attaching to a word, when it comes to meeting its debts.

BANKS COULD MAINTAIN GOLD PAYMENTS.

Mr. FOWLER. Have you any doubt whatever in your mind with regard to the ability of the banks of the United States to maintain gold redemption of the requisite amount of paper currency to properly conduct the business of this country?

Mr. ECKELS. No. Whenever the banks have undertaken to do it, at times when the Government was not issuing Treasury paper, they have been able to maintain gold payments and furnish all the gold necessary for the business of the country.

Mr. FOWLER. Is it not your opinion that a credit currency based upon assets is the only truly scientific form of paper money?

Mr. ECKELS. I have said repeatedly I thought it was theoretically the correct method of issuing notes.

Mr. FOWLER. Do you not think under proper supervision such credit currency of the banks might be safely equal to the capital of the banks?

Mr. HILL. Under general law?

Mr. FOWLER. Yes. Do you not think under proper supervision such credit currency of the banks might be safely equal to the capital of the banks?

Mr. ECKELS. Under proper supervision and with all necessary safeguards, but it would require a good many safeguards and pretty careful supervision. It is certainly something that could not be done except gradually.

Mr. FOWLER. I am coming to that. Do you not think such a system ought in time to succeed our present secured system?

Mr. ECKELS. Yes; I think in time it ought.

Mr. SPALDING. How long a time?

Mr. FOWLER. Just make a note of that question, and ask it when I get through.

Is it not your opinion that the transition from the one system to the other ought to be gradual, so as not to disturb business conditions in the slightest degree?

Mr. ECKELS. Yes.

NOTES ISSUED UNDER GOVERNMENT SUPERVISION.

Mr. FOWLER. Is it not your opinion, considering our present condition, that the right of the bank to issue credit currency ought to be left under the supervision of the Government officials?

Mr. ECKELS. I believe all notes which circulate as money from banks ought to be issued under governmental supervision, for the reason that because of such known supervision they will best be accepted by the general public. Then, too, they will have back of them the quality of uniformity, and also there will be vested in one authority the right to take the necessary measures in order to have the banks maintain the credit of the currency so issued.

TAX ON CIRCULATION.

Mr. FOWLER. Do you not think it would be advisable to divide the total amount of ultimate circulation into four or five issues and impose an increasing tax upon the respective issues in order to insure an automatic regulation?

Mr. ECKELS. Bank issues have sometimes been regulated by a graduated tax and they have been successful to a degree. In Scotland, where probably as good bank paper as any is issued, no such means of regulation is undertaken.

The CHAIRMAN. It prevails nowhere except in Germany.

Mr. BROSIUS. Germany is the only country.

Mr. FOWLER. There is no graduated tax in any country. There is a tax of 5 per cent when the banks of Germany exceed the amount granted by the Government and do not provide the reserve which the law requires.

Mr. ECKELS. Germany has a graduated tax after certain——

CURRENT REDEMPTION.

Mr. FOWLER. It is a straight 5 per cent. In Canada the same effect is produced by penalties imposed for degrees of excesses. Do you not

consider that the essential counterpart of a system of credit currency is current redemption?

Mr. ECKELS. Yes; it is absolutely essential to maintain current redemptions to have the currency issued safe and sound and of any benefit to the people.

Mr. FOWLER. The essential counterpart?

Mr. ECKELS. Yes, to maintain the credit of their currency.

Mr. COX. It would not go without that?

Mr. ECKELS. No.

REDEMPTION DISTRICTS.

Mr. FOWLER. Do you not think, therefore, that to facilitate such redemption the United States should be divided into clearing-house districts and each bank issuing notes should be obliged to redeem its notes at some one of those clearing houses as well as over its own counters?

Mr. ECKELS. I can see no objection, if there is to be credit currency issued, to the creation of redemption districts, although when it was attempted to have various redemption districts under the national bank system it was not found to operate as successfully as sole redemption at Washington. It is contended by those who advocate redemption districts that it makes more rapid redemptions by having the country divided up into districts and tends to send back to the issuing banks any unnecessary amount of currency.

Mr. FOWLER. As a matter of fact, the present currency of this country was not such as to render its current redemption essential to prove its goodness?

Mr. ECKELS. Oh, no; there is that difference between secured and credit currency, unless back of the credit currency is the Government's guaranty.

Mr. FOWLER. The ultimate redemption?

Mr. ECKLES. Yes.

Mr. FOWLER. But is there not a distinction in that; is it not true, as experience has shown in the past, that redemption should be made convenient?

Mr. ECKELS. Undoubtedly there ought to be every facility for convenient and quick redemption. Every bank ought not only to redeem at these centers, but redeem at its own counters when called for.

REPEAL OF STATE BANK TAX.

Mr. FOWLER. Do you not think that to secure uniformity our bank currency should all be issued under United States laws and not under State laws, and therefore are you not opposed to the repeal of the 10 per cent tax on State bank circulation?

Mr. ECKELS. I have stated once or twice that there ought to be uniformity in all currency and it ought all to be issued under governmental supervision.

Mr. FOWLER. Does not the other necessarily follow?

Mr. ECKELS. No; not necessarily. The benefits which the people who urge the repeal of the 10 per cent tax would receive from the repeal of it, it seems to me, are very much exaggerated. The theory on which the 10 per cent tax law was enacted is all wrong. It is a law which makes a perversion of the taxing power of the Government.

Mr. FOWLER. In principle?

Mr. ECKELS. Yes; but I believe the courts have decided it is all right, and their findings govern.

CREDIT CURRENCY.

Mr. FOWLER. Do you not think that the sections of bill H. R. 6442, which provide for a credit currency under United States Government supervision and divided into five distinct issues, with a tax of 1, 2, 4, 6, and 8 per cent, respectively, currently redeemed over the counter of the bank of issue and also at some clearing house, would, if enacted into law, in connection with the preceding sections of this bill, give to the country a sound and truly scientific currency, and that it would so gradually transplant our present system as only to produce the most salutary effect upon the business interests of the country?

Mr. ECKELS. I can not answer a question like that. You have embodied too much in it.

Mr. FOWLER. That is what we have been over.

Mr. ECKELS. It is a matter of speculation whether or not the banks would accept it. I have no doubt that, under the provisions of any bill, a bank-note currency issued against credits, with proper safeguards thrown around it, if entered upon gradually, would prove acceptable to the people. It would follow, through the manner in which it was maintained, that in time it would be accepted as a proper method of issuing all bank-note currency, but it would be a matter which would have to be entered upon very gradually, and there would have to be an unusual number of safeguards thrown about it. The difficulties to be encountered at the outset would arise from the fact that it would be a substitution with the people of bank notes which theretofore had been entirely secured with bank notes which are so dependent upon the manner in which the banks are conducted and the character of the assets which are in those banks. Of course this difficulty would be obviated if back of all these notes was the Government guaranty to make the ultimate redemption of them all.

Mr. FOWLER. Admitting that is so, the creation of the fund to which I am coming——

Mr. ECKELS (continuing). I do not believe, as a matter of fact, there would be any more bank failures from this system of note issue against credits than there would have been in the past if the same kind of management is had by the banks.

Mr. FOWLER. That would result from the same kind of supervision?

Mr. ECKELS. Yes. However, there would have to be made a very liberal allowance in the way of the issue attendant upon a departure of this kind, from the tendency of the people to feel not exactly as safe with a credit note as with a bond-secured note.

SAFETY-FUND PROVISIONS.

Mr. FOWLER. Do you believe, from your knowledge of the subject, that the tax imposed by this bill would produce a 5 per cent safety fund?

Mr. ECKELS. That is a matter of mathematics. It would depend upon how general a credit was placed by the note holders in the notes of these banks.

Mr. FOWLER. Well, if it produced a safety fund of 5 per cent, would that be ample in your judgment to redeem the notes of failing banks?

Mr. ECKELS. I think so.

Mr. FOWLER. In your judgment, this 5 per cent would be more than ample to redeem all the notes of failing banks, would it not?

Mr. ECKELS. Unquestionably, figuring upon the same basis——

Mr. FOWLER. Basing it upon your judgment of the past?

Mr. ECKELS. Yes; basing it on the past. Whether or not the tax provided in the bill would produce that amount is a question of mathematics.

Mr. FOWLER. Do you not think that all the banks of the United States, both State and national, would organize under this bill, having as they do the power to take out currency to the par of the bonds held by them, and that there is only a tax of one-fourth of 1 per cent imposed upon the bonds which bear 2 per cent, leaving a net $1\frac{3}{4}$ per cent to the bank and giving to the bank at the same time the right to issue credit currency?

Mr. ECKELS. I am sure I could not say what they would do.

Mr. FOWLER. What has been the experience of the past?

Mr. ECKELS. It is certain they will do the thing which seems to them, everything considered, will bring to them the greatest profit.

Mr. FOWLER. Has it not proved true in the past, whenever a bank can make more than $1\frac{1}{2}$ per cent net, it has taken out circulation?

Mr. ECKELS. Yes.

Mr. FOWLER. Therefore you can infer that where they made one and three-quarters per cent profit they would naturally be glad to take out circulation?

THE BALTIMORE PLAN.

Mr. ECKELS. Yes; but they would not decide this thing on one question. They would not decide it wholly on circulation, but they would decide it upon other matters which enter into consideration as to what would be the best thing for them. They would consider how their depositors would look at it and how it would affect those features of the banking business which to-day are a great source of profit to them. It would depend not on one circumstance, but upon a good many. When the plan known as the Baltimore plan was presented to the American Bankers' Association, which met in Baltimore two or three years ago, it was adopted almost without a dissenting voice, and it was accepted by the newspapers and approved generally by them throughout the country. Yet when that plan was embodied in a bill and presented to Congress it was abandoned almost as unanimously.

Mr. COX. And there was not a member of the committee who supported it.

Mr. FOWLER. There was no provision made there for current redemption, which was the essential——

Mr. ECKELS. They apparently left the principle. The question of details was not considered.

Mr. FOWLER. The principle is unsound without the counterpart, which is current redemption in gold coin. I should have gone a good way from it, as far as I could from it, without that policy.

Mr. ECKELS. I have always maintained in discussing the question of bank notes, that the test was not only the promise of the bank to redeem in gold, but its ability to redeem and to do so on demand in whatever quantities asked for.

Mr. FOWLER. Well, the national banks in the past, as I understand you, have seized upon the opportunity of taking out circulation whenever it paid them above $1\frac{1}{2}$ per cent; that is true?

Mr. ECKELS. Yes, they have taken out circulation when there has been a margin of profit in so doing.

CIRCULATION ISSUED TO PAR VALUE OF BONDS.

Mr. FOWLER. Would it not be a great advantage not to tie up a single dollar of the capital of the bank and take out the same amount of circulation that the banks have of bonds? Would it not be an advantage especially to the Western banks, where the rates are high?

Mr. ECKELS. There certainly would be more profit to the bank in issuing up to the par of the bonds and in addition having the right to issue its credit currency. On the other hand you have your banks surrendering the bonds bearing 4 or 5 or 6 per cent for a bond which only draws 2 per cent.

Mr. FOWLER. But they are paid the market price; therefore they lose nothing.

Mr. ECKELS. Oh, yes; they do not lose anything except in the lessening of future interest.

Mr. FOWLER. But they gain in the lessening of future interest because now they tie up the difference between 90 cents and the premium on the bonds; besides, they are only realizing one per cent, and under this bill they are getting one and three-quarters per cent. Is not that true?

Mr. ECKELS. Well, that is also a matter of mathematics, whether they would gain or lose.

Mr. FOWLER. But as a matter of fact, is it not true to-day that when you take into consideration the difference between 90 cents and the premium on the bonds, a great portion of the United States can not issue those notes at all, on account of the rate of interest in their respective localities?

Mr. ECKELS. Well, they do not.

Mr. FOWLER. Now, under this bill they would not tie up a single dollar of their capital and they would have a net $1\frac{3}{4}$ per cent on the notes taken out against the bonds.

Mr. ECKELS. Yes; I say that is a matter of mathematics; you might raise the price of bonds in the market——

Mr. FOWLER. Two per cent bonds?

Mr. ECKELS. You might by permitting a larger issue raise the market price——

Mr. FOWLER. Is there any probability of 2 per cent bonds rising so much above par as to practically reduce the rate of interest and therefore make the profit much less than $1\frac{3}{4}$ per cent.

Mr. ECKELS. Well, I should hardly think so, but there might be.

Mr. COX. In order to understand that——

The CHAIRMAN. Mr. Fowler has the floor.

Mr. FOWLER. I will yield to Mr. Cox for a question.

Mr. COX. As I understand, the proposition that is embodied in that idea, and let me see if I am correct, is that in the redemption of the outstanding bonds with those 2 per cent bonds you propose to pay the premium on the old bonds and put that into new bonds, convert them into new bonds?

Mr. FOWLER. Yes, sir.

Mr. COX. I wish to understand that, and that is all.

Mr. FOWLER. The market price of to-day, or at the time the bill is passed, being taken as a basis and continued during the funding of the debt, so that there can be no movement in the price of the bonds to the injury of the Government, and as a check against any such bull movement by speculation, the Government itself has a large quantity of 2

per cent bonds for disposition to the banks in the redemption of the demand obligations of the Government.

Do you not think that interests so vast and important to the people as our finances and currency are should not be left, in carrying out these financial and currency reforms, to the caprice of politics, but rather separated from them?

Mr. ECKELS. I think everybody would agree, Mr. Fowler, that these things ought not to be left to the caprice of politics, but then would come in the question of what constitutes politics.

Mr. FOWLER. Well, I am simply asking about the principle, now.

Mr. ECKELS. I do not think if you go to anyone and say, "Ought this monetary principle to be decided as a political question," but he would answer, "No;" but he would also couple with the answer what he thought constituted politics.

A CONSULTING BOARD.

Mr. FOWLER. Do you not think, therefore, that the supervision of these great interests had much better be left to a consulting board whose term of office will be such as to insure a continuous body than to a single individual whose ideas might possibly be at variance with the financial policy or be prejudiced in favor of some section, or be hopelessly ignorant of the subject when he came into office?

Mr. ECKELS. I think it is a great deal more essential to get a sound scientific bill than it is to establish a board. I think if you have a bill which in and of itself is good and whose provisions are not complex, that it would not be very hard, whether it was by one, two, or three persons, to enforce the provisions of that bill. The whole thing turns upon the character of the act. I do not see any objection to having a consulting board, if the officer who is charged in the first instance with the duty of carrying out the act has only to consult with the board. I am not a great believer in divided responsibility.

Mr. FOWLER. It would not be any more divided than in the case of the President and his Cabinet, would it?

Mr. ECKELS. Except that the President has the decisive voice in the matter, and under your plan no one man has. As I say, if you have a consulting board, with somebody at the head of it who as the last resort has the decisive act, there could not be any objection to it; but where you divide the responsibility among a number of people, each having equal power, you are liable to not work out as good results as where you have simply a consulting board instead of a single authoritative head.

Mr. FOWLER. Do you not think as a matter of fact if it should turn out some such bill was adopted, all the banks of this country, now amounting to about 10,000, State and national, representing approximately about a billion dollars of capital and about five billion dollars of deposits, would be far better under the supervision, when a system of branch banks is included, as you recommend, of three men, than under the supervision of one man who may leave his office the next day after the Administration comes in—we hope you will not—or may die in the midst of a bank panic or in any great crisis, but leaving the office practically without a man efficient and able to conduct it?

Mr. ECKELS. Well, it would depend entirely upon the character of the act under which these men were operating. It is not so difficult to administer an act if the act is not too complex, and, I take it, when you get a bill which you will hope to get, that is as near perfection as possible,

it will not be a difficult bill to administer, and, therefore, one man given the power, with the right to call in others in consultation who are suggested for that purpose, would do, I believe, a great deal better than seven men, all being given equal power.

Mr. FOWLER. There are three here and they do not have equal power.

Mr. ECKELS. Well, whatever the number, they are given equal power, and thereby is established a divided responsibility. I do not believe as much has been accomplished by permanent commissions in the conduct of bureaus as has been accomplished by bureaus with one person in charge.

INSURING DEPOSITORS AGAINST LOSS.

Mr. FOWLER. Inasmuch as you have stated that in your judgment the supervision of the banks should be controlled by the Government, I take it you approve of paying to the Government a tax for the redemption of notes in case of banks failing?

Mr. ECKELS. Yes.

Mr. FOWLER. If the actuary of the Treasury can inform you, after an examination of the records, that the national banks since 1863, by paying one-twelfth of 1 per cent per annum upon the deposits into an insurance fund, could have protected all depositors, do you not think it would be advisable to have the national banks of the United States insure their depositors against loss?

Mr. ECKELS. I do not believe it is any business of the Government to guarantee bank deposits.

Mr. FOWLER. I do not say the Government; but I say, do you think it would be a wise thing to do?

Mr. ECKELS. That is a business proposition which the individual banks should determine, and I would not undertake to express an opinion upon it.

Mr. FOWLER. In your judgment, what do you think?

Mr. ECKELS. I do not think that I care to answer the question. There are a number of institutions which have been created for the purpose of insuring county treasurers' funds and all that sort of thing. It is a business matter, and it is not a matter with which the Government ought to deal.

Mr. FOWLER. Let me ask you this, then. If the fund of 5 per cent, which you said in your judgment was more than ample to redeem the notes of the banks failing, was paid into the Government, and if the banks of the United States actually did insure the depositors against loss by paying a necessary amount to an insurance company, do you not believe that bank panics would be practically ended?

Mr. ECKELS. No; because you would have to completely reform a large portion of mankind. You can have all the precautionary measures you may desire, but fear at times will manifest itself among the people as to the safety of their property. You can not do everything by law, and you ought not to attempt it.

BANK PANICS IN OTHER COUNTRIES.

Mr. FOWLER. Do you know how long any bank panic has lasted in Scotland?

Mr. ECKELS. They are free from panics.

Mr. FOWLER. They never last to exceed three or four days, or a week at the outside?

Mr. ECKELS. No; they are very short. The people have the utmost confidence in their bankers, and they are all educated up to the point of using banks.

Mr. FOWLER. And a credit system of notes?

Mr. ECKELS. Yes; but it is a matter of education.

Mr. FOWLER. Do you know whether or not they are in the habit of having bank panics in Canada as they have them here in the United States?

Mr. ECKELS. They have not so far under their present system, but they have not had the same things to contend with. They have not passed through the same business conditions we have, and they have kept business questions separated from political ones.

Mr. FOWLER. Have they not had booms at Toronto and Victoria the same as we have had in the United States?

Mr. ECKELS. But they have not had half the bad financial laws nor half the speculation we have, nor half the overtrading, nor half the undue extension of credits.

Mr. FOWLER. It is mostly in the bad banking laws?

Mr. ECKELS. Much of it here is chargeable to bad financial laws, but not all. The bad financial laws we have had have aggravated all these things, and at least in one instance brought them to a head. The silver-purchasing act of 1890 centered the many causes which resulted in the panic of 1893.

Mr. FOWLER. Do you know what the experience of Germany has been since 1875, when they established their present banking system and gave to the banks practically a free banking system?

Mr. ECKELS. They have kept along very successfully.

Mr. FOWLER. There have been no bank failures at all?

Mr. ECKELS. No.

Mr. FOWLER. In twenty-two years?

Mr. ECKELS. But there would have been if they had had the same conditions which we have here. You must deal with our people and take our conditions, and take our habits and education in these things, and the law which surrounds them, and the tendency of overdealing and overtrading, and all that sort of thing.

Mr. FOWLER. As a matter of fact, it is true that all over the world—go back and take in Scotland for two hundred years and the banks to-day which exist upon a credit system—there have been less, and very much less, too, of the ups and downs of banking interests than we have had in this country?

Mr. ECKELS. I will answer that question as I answered it the other day. I then stated that when a large number of banks failed in England which operated under the same system as Scotland, it was found that no banks failed in Scotland. A distinguished economist, on being asked what was the explanation for such fact, replied that the explanation was simply that the Scotch were better bankers than the English. Both were issuing credit currency, but the Scotch banker was a banker always banking upon banking principle; while the English banker, at the time when these failures occurred, did the thing which could not help resulting in the destruction of the system. It was not the system, but the way in which the system was carried out.

Mr. FOWLER. Is it not true that since 1839, when that panic occurred which led to the English bank act of 1844, the English bankers have gone on with a very much greater degree of safety than the banking system in this country?

Mr. ECKELS. Yes.

Mr. FOWLER. And they there have the privileges of a credit currency?

Mr. ECKELS. They have not exercised the privilege—

Mr. FOWLER. But to the extent of their needs they have?

Mr. ECKELS. But that extent has not been very great, however. They have been better bankers since their experience at the time of all these failures.

Mr. FOWLER. Might it have been due not so much to the fact of their being better bankers?

Mr. ECKELS. I do not think so. I do not think, Mr. Fowler, the mere fact that there has been permitted in certain countries a credit currency has prevented bank failures. Bank failures have been avoided because of the character of the men who have handled the banks, and who have carried out the provisions of the law.

CREDIT CURRENCY IN THE UNITED STATES.

Mr. FOWLER. Coming back to our own country, is it not your judgment, from your knowledge of our country, that the thing to do that is necessary to insure the safety of our institutions as they exist to-day is to give to the newer and more undeveloped portions of the country the facilities of a credit currency?

Mr. ECKELS. Those portions of the country of which you speak ought to be given the benefit of every facility that constitutionally can be given them in the matter of banking privileges, whether it is in issuing currency or in making exchanges. Despite all these things, however, you are never going to be able, no matter what laws you pass, to put those sections of the country in the condition that the older sections of the country are until they have passed through all the things necessary to accumulation and growth. There is no way that I know of by which through bare enactment of law they can be made prosperous.

Mr. FOWLER. Do you not think that the credit system as it existed in New England from 1825 to 1860, and the credit system established in Scotland, was an immense source of profit and important to the development of those regions at the time when they had no wealth in the form of deposits to use?

Mr. ECKELS. Yes, undoubtedly; but for years and years before that the States of New England and Scotland had to pass through all the various eras of business depressions and losses and all that, and so in this country you can not, by any law that I know of—and it must be equal, necessary, and just in its operations—do more than give the people an opportunity. They must depend upon themselves in the greatest measure if benefit is to accrue to them.

Mr. FOWLER. I understand you to maintain in your report that greater strictness should be demanded on the part of directors in the administration of national banks, do you not?

Mr. ECKELS. Yes.

CREDIT OF THE GOVERNMENT.

Mr. FOWLER. Is it not your opinion, too, that the United States Government should have all the means within its power of providing against any deficit by issuing short-time certificates?

Mr. ECKELS. Yes. The Secretary of the Treasury ought to be clothed with all the power necessary to meet in any emergency the obligations of the Government.

The CHAIRMAN. Is not the direct guaranty of the final payment of all currency notes by the Government, embodied in a banking law, equivalent to securing final payment of all currency by the use of Government bonds?

Mr. ECKELS. It amounts to the same thing as the guaranty does as long as the credit of the Government is maintained, with the exception that the law providing a guaranty might be repealed. If a bond is out, the Government can not repeal it, although, of course, it might repudiate it.

The CHAIRMAN. We could not repeal the law as to existing currency. That would be held an ex post facto law?

Mr. ECKELS. Of course, we could repudiate it.

The CHAIRMAN. Is not the credit of the country in doubt to-day because of the attempts of the Government to maintain the current redemption of all our thousand millions of paper money?

Mr. ECKELS. I would answer, yes.

The CHAIRMAN. Now the next question——

Mr. ECKELS. That is the source of doubt as to the Government's ability to maintain that amount of paper with its limited means and limited powers given to the Secretary of the Treasury.

CLEARING-HOUSE DISTRICTS.

The CHAIRMAN. Mr. Fowler refers to clearing-house districts. Clearing-house districts are one thing and clearing centers are quite another thing. Clearing-house districts refer to territorial districts and clearing centers refer to large commercial cities of which the bankers will elect one which is reasonably adjacent, in which they will clear. Now, is it not impossible practically to have clearing-house territorial districts, and is it not absolutely necessary to have clearing centers, local centers?

Mr. ECKELS. I suppose every clearing-house district would have its center.

The CHAIRMAN. Certainly, but that would be territorial, and a bank within 20 miles of one large place might not clear there any better than a bank within 100 miles of that place. Ought not the banks to be allowed to select, within reason, the clearing house center where they can clear most economically and promptly, rather than be confined to a territorial district?

Mr. ECKELS. The territorial district would undoubtedly have its redemption center.

The CHAIRMAN. Yes; but the redemption center might not be a territorial center, nor any nearer to a business center.

Mr. ECKELS. There would probably be a union of business and territorial centers.

The CHAIRMAN. Could not the proposed method of issuing currency redeemable by banks be engrafted in our present national-bank law, instead of incorporating any new methods—except where you are obliged to do so—rather than a new law?

Mr. ECKELS. It would be wise to accept the best in the present act and only try to change those things which do not contribute to the best interests of business.

The CHAIRMAN. I have no more questions to ask. Mr. Cox, have you any questions to ask?

Mr. COX. I have a few short questions I would like to ask.

As I understood the theory of the bill that you have been discussing and the questions and your answers, this is the point: It would confer upon the banks power to issue circulating notes equivalent to their capital stock?

Mr. ECKELS. Yes.

Mr. COX. That is the principle it starts on to get circulation. That being so, that power being conferred on the banks to issue notes to the extent of their capital stock, what kind of security would there be for any depositor of the bank?

Mr. ECKELS. The first set of notes is issued against the bonds, and the second notes are issued against the assets, which are equal to the capital stock. The deposits would still have as securities the assets of the bank in the way of their bills receivable and loans and discounts. It is not expected that there would be more notes issued than the capital stock and the assets of the banks proper.

Mr. COX. Of course no banker would do that; but to leave that part of the subject, if the bank has the authority to issue notes to the extent of its capital stock and those notes are based upon that and the other additional securities given for it, does that not decrease the responsibility of the bank to the depositors, as the law now stands?

Mr. ECKELS. It decreases the assets which the depositor could look to.

Mr. COX. In other words, the depositor has not as much security under this system as he has under the present system?

Mr. ECKELS. That is, he has not as much security in a badly conducted bank.

Mr. COX. Of course, we always have to assume in the management of any bank that it has not much security if it is badly conducted.

Mr. ECKELS. You are speaking, Mr. Cox, of the notes issued against assets.

Mr. COX. Yes. I want to draw your attention to another proposition that came out of this discussion this morning, which we have had, I think, fully explained by you, and that is, one of the serious troubles of the system lies in the fact of the outstanding demand notes of the Government and the Government not being powerful enough, or having money enough, to redeem them on presentation.

Mr. ECKELS. Not having the means which enabled it to redeem them except at extraordinary expense and under extraordinary circumstances.

Mr. COX. Yes, and it has to resort to somewhat extreme measures to redeem them when required.

REDEEMING SILVER IN GOLD.

I want to call your attention to another question. In examination, the other day, you told us that upon a legal principle and upon the theory that is held by Government that it is bound to maintain the parity between the two metals, if demanded, the Government would have to redeem the silver dollars in gold?

Mr. ECKELS. I think so.

Mr. COX. Now, then, we take up the demand notes. I am not talking about bonds. Does not the danger still exist against the Government that it would be required to redeem silver in gold?

Mr. ECKELS. The Government might be required to do that, but it is probable it would be able to carry the present amount of silver, if it is definitely known that no more shall be coined and that all our business is unquestionably transacted on a gold basis.

SAFE REDEMPTION.

Mr. BROSIUS. Do you not think that under the redemption system, under the present banking system, when the credit of the Government is perfectly good, foreign capital is invested here, and makes no demand on our gold?

Mr. ECKELS. It is all right as long as those conditions exist.

Mr. BROSIUS. Supposing those conditions are reversed, as they have been in the last two or three years, and in view of the fact that we are a debtor nation, owing say $200,000,000, or $300,000,000 a year outside of our trade, and the foreign holders of our securities have a right to demand gold, and that our credit is of such a character that they demand it, would any system of redemption by the Government or by banks withstand for a year the continuous demand for $200,000,000 or $300,000,000 in gold by foreign holders of American securities?

Mr. ECKELS. Every system, of course, is liable to be endangered by adverse conditions, but the point that I have tried to make is that these adverse conditions would not result as they do if we did not have the laws which tend in a large measure to create them.

Mr. BROSIUS. But if the conditions which I have described of the impairment of our credit existed, then it would be impossible to maintain gold payments, would it not, by any system of redemption?

Mr. ECKELS. It might be impossible, but the impossibility would not be demonstrated so quickly with the banks as it would with the Government. The banks would be better able to protect themselves, and before the serious point, which would come quickly upon the Government, could be reached with the banks the chances would be that the banks would be prepared to avert it.

Mr. BROSIUS. The strain could be resisted longer by the banks than by the Government?

Mr. ECKELS. Yes.

Mr. BROSIUS. Is it not rather desirable to have all our paper money of this country for current redemption dispensed with except to a limited extent for special purposes which we understand to be necessary?

Mr. ECKELS. That is very much to be desired.

Mr. BROSIUS. The bank currency that is in doubt in any respect—that is, a bank currency that has for its security only the assets of the bank—as some of the banks are liable to be mismanaged and go into bankruptcy or break up without anything like current redemption, and frequent redemption is necessary in order to keep that currency good, isn't it?

Mr. ECKELS. Yes, the banks must always be in a position to make the redemptions on demand.

Mr. BROSIUS. And in order to establish the fact that the bank is in good condition the currency must frequently go back home in order to test the ability of the bank?

Mr ECKELS. Yes; undoubtedly.

Mr. BROSIUS. That is, it would go home to get a certificate of good character and then go out, good, again?

Mr. ECKELS. But probably as time went on the rapidity of the redemptions would lessen.

Mr. BROSIUS. As confidence grew?

Mr. ECKELS. As confidence would be established, unless business decreased and there was no reason why it should be outstanding.

Mr. BROSIUS. So far as their redemption is concerned, the necessity

for that redemption would diminish in proportion to the establishment of the credit currency?

Mr. ECKELS. Yes; in so far as redemptions solely to demonstrate the soundness of such currency is concerned and not redemptions because the notes were no longer needed in business.

Mr. BROSIUS. It is said that about one fifth of 1 per cent on the circulation would have paid that portion of the bank currency in the last thirty years which the Government would have had to pay—a tax of one-fifth of 1 per cent. That would be upon the assumption that in the future, if we had a credit currency with a safety fund of that character, the losses would be no greater in the future than in the past.

Mr. ECKELS. That is the theory.

Mr. BROSIUS. Now, is it fair to assume that the losses would be no greater in the future, when all the bonds are in the custody of the banks, than they were in the past, when the bonds were in the custody of a trustee?

Mr. ECKELS. It is fair to assume that, Mr. Brosius, coupled with the statement I have frequently made—"with the same character of management."

Mr. BROSIUS. But would the character of the management be the same in the case of banks that are mismanaged, sometimes through ignorance and sometimes through fraud and design? If the bank officers are rascals and scoundrels, would they not be more likely to use up their own money if the bonds were under their own control than if under the control of a trustee?

Mr. ECKELS. If a man tries to steal, of course he generally steals everything in sight.

Mr. BROSIUS. Exactly. And if the bonds are in the hands of the Government he can not steal them.

Mr. ECKELS. But if he is honest he will not steal——

Mr. BROSIUS. We are presuming they are not honest. We are protecting the holder of the note, and the point I make is, I have always had contention with those who assume that a certain per cent in the future would protect note holders because that amount of money would cover all the losses in the past.

The CHAIRMAN. Outside the bonds——

Mr. BROSIUS. Providing there were no bonds deposited. That is assuming that the rascals and scoundrels would have stolen no more money if the bonds were in their own hands than they would if the bonds were in the hands of the Government as trustees.

The CHAIRMAN. I beg your pardon. They do not assume that.

Mr. BROSIUS. That is the very thing upon which they make the assumption. I want the Comptroller to understand me. Under the present bond system, a bank can not steal bonds, and whatever else the bank may do the bonds stand there for the redemption of the currency. If he had the bonds, he might steal the bonds also; then what would stand for the currency?

Mr. ECKELS. But there never has been a time where there was not enough assets left to to take care of the currency.

Mr. BROSIUS. That is to say, if you diminish the currency, you diminish the security of the depositors.

Mr. ECKELS. There is no question about that.

Mr. BROSIUS. Do you think this business into which the Government of the United States shall go, to establish banking institutions, to sanction them, inviting you and me to deposit money there, and after that is done to authorize them to issue a currency which shall be a first lien upon the money you and I deposit there——

Mr. ECKELS. The theory of all laws on the subject is that the note holder is the one to be protected as against the depositor.

Mr. BROSIUS. I know, but he should be protected without sacrificing the depositor, if that is possible.

Mr. ECKELS. And should be given the greater number of rights.

Mr. BROSIUS. Our system is to protect the note holder without sacrificing the depositor——

Mr. ECKELS. You diminish the depositors' assets by just so much by tying up an amount in bonds for the benefit of the note holder. The Government, it is evident under the present law, acts on the theory that the first man to be looked after is the note holder.

Mr. BROSIUS. You do not mean to say that the assets are diminished by tying up the bonds. They are still the property of the bank.

Mr. ECKELS. They are property of the bank specifically set aside at the expense of the depositor for the benefit of the note holder.

Mr. BROSIUS. Ought he not to have the benefit?

Mr. ECKELS. That is the point I make, but you say the depositor ought to be looked after.

Mr. BROSIUS. I say the note holder should be first looked after, but in such a way as not to destroy the security of the depositor unless it is necessary.

NOTES ISSUED AGAINST ASSETS.

Mr. JOHNSON. I want to ask one question with a view of getting a final statement from the Comptroller as to his position on one point. Is it not your opinion that in whatever form of banking and currency law may be devised, a portion of the circulating notes issued by the banks should be issued on their assets alone?

Mr. ECKELS. Yes; it is within the limits of those notes that is to be found what is termed the elasticity of bank issues.

Mr. JOHNSON. Do not the statistics show that if the 1 per cent tax on circulation on national-bank notes had been applied to the payment of the notes of the banks that have failed from the time of the organization of the national-bank act to the present time there would have been left a very large balance?

Mr. ECKELS. Yes; there would have been.

Mr. JOHNSON. Can you tell the total amount of notes of the failed banks, the total amount of the tax on circulation, and the balance?

Mr. ECKELS. The total amount of outstanding notes in circulation of all failed national banks to the date of the last report, October 31, 1896, was $19,641,909. The tax collected on bank-note circulation by the Government was $80,007,905. The statistics will be found on page 109 of my last annual report to Congress.

Mr. JOHNSON. Might not the credit of the Government be below par and at the same time the credit of the bank in that country be good?

Mr. ECKELS. Yes.

Mr. HILL. Can the same liberal provision of issuing credit currency be safely given under a general law that could be given under a system of special charters, where there was an examination into the bank in each case—into its location and as to the men having it under control?

Mr. ECKELS. You would have to have a general law on the subject to make it of general benefit.

Mr. HILL. I admit that, but can the same general provisions be given under a general law as could be given under a system of special charters?

Mr. ECKELS. No; of course not.

Mr. HILL. I mean, would it be safe to give them where any three men could organize a bank?

Mr. ECKELS. I have no doubt you could have more safety provided under special laws making requisite special guarantys, but I do not see how such a thing would be practical. The law would have to be general in its terms and provisions.

Mr. HILL. Which would you prefer, one redemption point for all banks, or numerous redemption districts, made compulsory, or such points as each bank may choose under such regulations as each bank may make for itself?

Mr. ECKELS. I would leave it largely to each bank to select its redemption center, but I would have the regulations made by the Government's supervising officer instead of by the bank.

Mr. HILL. You mean as to the reserve——

Mr. ECKELS. I mean as to the manner of redemption.

Mr. HILL. When I speak of the choice of the banks I mean in selecting their own redemption points.

Mr. ECKELS. I would leave it largely to the banks.

TWO FORMS OF REDEMPTION.

Mr. HILL. Do you think well of any system that redeems one note of the bank by another note of the same bank of a different form?

Mr. ECKELS. You mean——

Mr. HILL. Having two classes of notes and redeeming one note in another kind of a note?

Mr. ECKELS. I would have the notes redeemed in gold and gold only.

Mr. HILL. Yes; but on general principles, would you think well of any system that redeemed one form of its notes in another form of the same bank note?

Mr. ECKELS. No; I would not. No redemption is made if the redeeming money has itself to be redeemed.

Mr. HILL. Do you see any necessity of keeping a 15 per cent reserve against circulation if one-half of that reserve is not redemption money?

Mr. ECKELS. I would prefer to keep a smaller reserve and have it redemption money. You estimate your reserves against deposits, Mr. Fowler?

Mr. FOWLER. The same applies to the notes issued.

Mr. ECKELS. I think you estimate your reserves too high.

Mr. FOWLER. What do you mean—reserves against redemption?

Mr. HILL. But he cuts it down by having half the money not redemption money.

Mr. FOWLER. That would not make any difference.

The CHAIRMAN. Mr. Hill has the floor.

Mr. HILL. That is a question on his bill. I think Mr. Fowler ought to be given an opportunity to answer.

Mr. ECKELS. A much less amount of redemption money is necessary to care for the notes than for the deposits.

Mr. FOWLER. One half as much?

Mr. ECKELS. Certainly as low as that.

Mr. FOWLER. Then, Mr. Hill, you are answered.

Mr. HILL. I am answered; but in your judgment there would be no necessity of keeping a 15 per cent reserve unless it was redemption money?

Mr. ECKELS. I would have all the reserve against notes in money which absolutely redeems.

Mr. HILL. And I understand from the gist of your remarks that you

would object to the redemption features of the Fowler bill and the Walker bill, on the same ground that you object to mine—that there are two forms of redemption?

Mr. ECKELS. I would reduce all redemption money to one form—that of gold.

Mr. HILL. As I understand you, you would have one form of note only. I want to see if I have your opinion right. As I understand you, you would have one form of note only, partly secured by guaranty or Government bonds or in some other way, and partly issued against assets, but not distinguished in its form, and all redeemable in gold only? That, as I understand, is the gist of your recommendation.

Mr. ECKELS. Yes, I would have a portion of the notes issued against security or with guaranty, and a portion against assets, but I would have them all redeemable in gold. So far as there being a different appearance in the notes issued against the assets and the notes issued against securities, that would not cut any figure as long as they were redeemable in the same thing, but if they were not redeemable in the same thing I would not permit the two classes to be issued.

Mr. HILL. How is the note holder able to ascertain whether the note he holds when a bank suspends is secured by the guaranty or by the assets of the bank other than the guaranty, and if he can not tell wherein is the extra confidence which is given by having any of them secured by a guaranty?

Mr. ECKELS. Under Mr. Walker's bill all the notes are guaranteed by the Government and under Mr. Fowler's bill they are guaranteed by the safety fund. Under your bill, Mr. Fowler, does the Government immediately pay all the notes outstanding of failed banks?

Mr. FOWLER. They draw 5 per cent until the holders are notified to present them.

Mr. ECKELS. Under Mr. Fowler's bill there would probably have to be some distinguishing feature in the bills themselves.

Mr. HILL. You would not approve, then, of a different form of note indicating on its face which is secured by a Government guaranty and which is secured by the assets of the bank only?

Mr. ECKELS. I should greatly prefer to have the bills similar. I think it would facilitate the circulation of them.

Mr. HILL. One more question. Would you approve of one large banking institution in the United States that would take up all the United States Government debt and manage the subtreasury business, instead of its being carried on by the Government?

Mr. ECKELS. I think the Government might very properly finance its affairs through banks.

Mr. HILL. I do not mean to say through the banks as now organized, but substantially the old United States Bank.

Mr. ECKELS. I am not prepared to answer a question like that, but I think the Government could a great deal better finance its affairs in different portions of the country through certain established institutions than it does through the present subtreasury system.

The CHAIRMAN. There are some gentlemen who have not asked any questions, and if they desire to ask them they are now entitled to the floor; and after that Mr. Fowler can take the floor.

CREDIT OF THE GOVERNMENT.

Mr. SPALDING. I have a few questions I would like to ask.

In one of the questions asked by the chairman of the committee, Mr. Comptroller, there seemed to be a reflection on the credit of the United States currency. I do not know whether it was intended or not.

The CHAIRMAN. I am no respector of persons. I seek only truth.

Mr. SPALDING. Is it true that there is any lack of credit in the Government currency, inasmuch as the bonds of the Government, drawing 4 per cent interest, stand at a premium to-day of 22 and 23? Would not that indicate that the Government security is as good as any Government on earth, and better than any bank in the world?

Mr. ECKELS. I do not think that the chairman has any reference to the currency issues which were secured by bonds.

Mr. SPALDING. I am talking about the credit of the Government, which is bonds, selling at 22 premium to-day.

Mr. ECKELS. Yes.

Mr. SPALDING. Would not that establish credit beyond peradventure of a doubt, equal to almost any government on earth?

Mr. ECKELS. Yes; that was a demonstration. But it has required these frequent public demonstrations to show that its bonds would sell at a good price, and always up until the very day when they were sold nobody knew what they were going to sell for. These demonstrations, with their attendant discussions and doubts, have been exhausting. Under a proper system they would not have been necessary.

Mr. SPALDING. Is not that the case with anything?

Mr. ECKELS. No; it is not.

Mr. SPALDING. I think it is. For instance, the Baltimore and Ohio Railroad stock or bonds—they would not know what that stock or bonds would sell for before it was sold.

Mr. ECKELS. But you know, Mr. Spalding, that it was, from the passage of the Sherman Act, a question of discussion by those abroad dealing with us and by people at home and by the Government officials at the Treasury Department whether the Government under existing circumstances would be able to maintain redemption of its obligations in gold, and that the Secretary of the Treasury, Mr. Foster, himself called such fact to the notice of Congress.

Mr. SPALDING. Politics.

Mr. ECKELS. No; no politics in this; simply the fact; Secretary Foster himself felt that with the present laws and the present powers of the Secretary of the Treasury the Government did not find itself in a position to maintain its credit. He insisted that provision should be made, because of the addition of the Sherman notes, to increase the gold reserve from $100,000,000 to $150,000,000.

Mr. SPALDING. The laws of the Government are substantially the same as they have been, and there has been placed, as I understand it from an official communication from the Secretary of the Treasury, $60,000,000 of gold in the Treasury for greenbacks in the last six months.

Mr. ECKELS. Yes.

Mr. SPALDING. And that there has been placed $195,000,000 within the last four years?

Mr. ECKELS. Yes.

Mr. SPALDING. Of gold that was put in for the credit notes of the Government of the United States?

Mr. ECKELS. And there has been drawn out a good many times $195,000,000 by persons who held those notes, for fear if they did not obtain gold on them they would not be redeemed in gold when they were finally presented. As a matter of fact, the question is not whether the credit of the Government is actually all right, but whether or no it has not been doubted. That is the point.

Mr. SPALDING. The conditions are very similar to what they were a year ago, are they not? There has been no change, has there?

THE ELECTION OF 1896.

Mr. ECKELS. No; there has been no change except that the public, because of the result of the Presidential election, came to the conclusion that we were not going to be brought to a silver basis. The extraordinary influx of gold through the demand for our agricultural produce has also had an effect in evidencing the fact that more gold was in the country and more in the Treasury.

Mr. SPALDING. The cause of that demand was the suffering and depression in India and short crops, which gave us an increased demand for our products. If it had not been for the suffering in India, we would not have had that?

Mr. ECKELS. That is so.

Mr. SPALDING. Then it was caused by a short crop in India, causing gold to come in. Otherwise we would not have been able to sell our wheat for so much as we did. Would it not have lessened the security to the depositor and also to the note holder if the currency of the bank was based on its assets alone—for instance, a bank with a $100,000 capital, with a deposit of $300,000, and an issue in currency of $100,000. The depositor and note holder would be less secure than he would be under the present law?

Mr. ECKELS. Not at all. If the bank was properly conducted, it would be just as secure, because a bond is an asset of a bank.

Mr. SPALDING. No; this is a mathematical proposition; and he must be that much less secure; would he not be?

Mr. ECKELS. What security has the note holder or the depositor now, outside of the liability of the shareholder, beyond the assets of the bank? The assets of the bank consist of its bills receivable, its stocks, its bonds, its cash, real estate, and other items constituting its resources.

Mr. SPALDING. I think that you and I understand each other. That a bank with $100,000 capital, having $100,000 4 per cent bonds to its credit, with $90,000 worth of bills issued, is perfectly secured, because the bonds are at a premium to day of 22. Now, the difference between $22,000 and $10,000 in circulation would give them $32,000 over and above the assets of the banks. That would not be less security, would it?

Mr. ECKELS. We are proceeding on the theory that the bank, instead of having the bonds in the Treasury, would have them in the vault as an asset. It would have just as large an amount of assets to meet its obligations. The question would be, whether the assets should be kept in the bank or kept by the Government.

Mr. SPALDING. Supposing they were kept in the bank, they would be secured, of course, if a bank was run on that high plane that you talk about—which no bank ever has been run on, even the Baring Brothers or any other bank—and the assets did not shrink in value; but when a bank fails its assets necessarily shrink, the same as when a partnership fails the assets are distributed and never fully paid. The depositor and note holder would be infinitely less secured.

Mr. FOWLER. Infinitely less means nothing whatever.

Mr. SPALDING. A great deal larger.

I am glad to see by the answer of the Comptroller that we have established the credit of the United States.

Mr. JOHNSON. I think the testimony of the Comptroller has been exceedingly clear and interesting and speaks for itself.

Mr. ECKELS. There has been no attempt made to discredit the credit of this Government. I have only undertaken to point out the fact that the Government maintains a financial policy which makes its credit a

question of discussion. That there is something wrong in a policy which so results, I think, must be patent to anyone. Nobody is discussing the general organization of the Government, because everybody thinks it is sound. Nobody is discussing our public school system, because everybody accepts it as sound. Nobody is discussing the general soundness of the fundamental laws upon which our institutions are based, because they are accepted as sound. But the very fact that everybody is discussing the question of our monetary system and the question of our banking system and the question whether or not the Government will maintain the payment of gold or silver, or whether the Government will maintain the redemption of its obligations in gold, in and of itself, demonstrates the fact that it is not up to the level of what it ought to be. It all results in doubt, and, rightly or wrongly, the Government in its fiscal operations suffers, and the business interests of the country also do.

Mr. SPALDING. Is not that same thing being discussed in Germany, in England, in France, and in every country on the face of the earth, almost as much as it is here?

Mr. ECKELS. Nobody is discussing the credit of England, or discussing the credit of France, or discussing the credit of Germany, but many have discussed and are discussing the question of whether the United States Government would be able to redeem its obligations in gold, and to that extent the credit of the Government has been injured and the credit of the people as well. This has been manifested in the withdrawal of foreign investments and the failure to make domestic ones.

NOTES A FIRST LIEN ON ASSETS.

Mr. FOWLER. Can you see any difference between the Government taking possession of a sufficient amount of the assets of the bank to secure the note holder and giving the note holder the first lier on the assets of the bank?

Mr. ECKELS. It amounts to the same thing. I suppose the first lien on the assets of the bank would operate for the note holder by the Government taking possession of the assets for him.

Mr. BROSIUS. I would like to ask you whether you think it would be fair to give the note holder the first lien on the assets. Isn't it just as fair to give the note holder the first lien on the assets as it is under the national banking system for the Government to seize upon about $120,000 of the assets to secure $90,000 of its notes?

Mr. ECKELS. It amounts to about the same thing.

Mr. FOWLER. Is it not a fact, or is not the fact presumed, that when the notes of a bank are issued under the credit system they will bring an equal amount of assets, just the same as if you loaned out a corresponding amount of the deposits of the bank?

Mr. ECKELS. Certainly the notes are not going out except for something in return.

Mr. FOWLER. So that there is absolutely no difference, is there, between a bank loaning its deposits and a bank loaning its notes?

Mr. ECKELS. No. It loans deposits and receives promissory notes of borrowers, against which it issues its bank notes.

Mr. FOWLER. Is it not true that the experience of the national banks since 1863 shows that all those banks which have failed and been closed out have returned 75 per cent of the liabilities?

Mr. ECKELS. Yes; about an average of 75 per cent.

Mr. FOWLER. As between the creation of a safety fund, that is shown

by experience to be adequate to redeem notes, and guaranteeing the notes by the Government, which do you think would be preferable?

Mr. ECKELS. The Government would run the less risk with the safety fund.

Mr. FOWLER. In your judgment that is the proper system—to have a safety fund created through a tax; and would 5 per cent be sufficient?

Mr. ECKELS. It has worked very successfully wherever that has been tried. It would be an additional safeguard and guaranty to the note holder. Five per cent ought to be sufficient.

CIRCULATION OF SILVER COIN.

Mr. FOWLER. Your idea about the present amount of silver money circulating with safety among the people is based on the fact that people would virtually find use for that much, and that our silver money, in the form of coin instead of certificates, would not be gathered as silver and presented for redemption?

Mr. ECKELS. I do not think they would be.

Mr. FOWLER. It would not facilitate its presentation when it is in the form of silver money?

Mr. ECKELS. It would be rather an expensive luxury to be sending the silver to a redemption point and paying the express on it both ways.

Mr. FOWLER. That is the point.

Mr. ECKELS. It is not unlikely that the people might be able to use that amount of silver in the country. They would be unable to use any more. The amount which we already undertake to use is a very large amount.

NOTE REDEMPTION.

Mr. FOWLER. In answer to a question by Mr. Brosius, in which he referred to the redemption of notes, you said you thought the redemption of notes ought to be reduced to a minimum—reduced to a minimum in times of redemption, I suppose you meant. Were you then referring to the redemption of national-bank notes or were you referring to a system of credit currency?

Mr. ECKELS. I was referring to the redemption of the currency upon the ground of doubt as to its goodness, which I stated ought on such account to be reduced to a minimum. I coupled with that statement the statement, as I now remember, that of course it would be redeemed whenever business needs did not require it to be outstanding. The point in Mr. Brosius's first question was that the frequency of redemptions would be indicative of the doubt of the holder of the note as to whether or not it was a good note.

Mr. FOWLER. But as to its goodness; would it ever be brought in question if the notes were redeemed by the Government in case the banks failed?

Mr. ECKELS. No; certainly not; if redeemed as at present.

Mr. FOWLER. Therefore the only thing that would send it home would be the self-interest of other banks to get their own notes out?

Mr. ECKELS. The wish of the individual note holder, the self-interest of other banks, and the fact that there was need of it in the demands of business.

Mr. FOWLER. That is it. The actual reason that other banks do not want it in their community and the bank itself had no use for it in circulation.

Mr. ECKELS. It is quite impossible to keep a dollar in circulation beyond the needs of business.

Mr. FOWLER. Mr. Brosius made a distinction, or an attempt at a distinction, between the redemption of bank notes and the redemption of the bank deposits. Is it not as essential to redeem its deposits as it is to redeem its notes?

Mr. ECKELS. Unquestionably it must meet its deposits just as much as it does its notes. It would no doubt have to meet its depositors' demands more frequently than the note holders' demands.

Mr. FOWLER. Therefore, the fact that the bank issues notes is no more a strain on its credit than when it takes a deposit and gives a man a pass book; is it?

Mr. ECKLES. It is simply an evidence of indebtedness on the part of the banks, taking the form of a promissory note instead of a book account. That is the only difference.

SPECIAL CHARTERS.

Mr. FOWLER. Mr. Hill asked a question suggesting that it might possibly be safer, when a bank took out its charter, to give it a special charter in which it would be determined how much credit currency that particular bank should issue. Is it not a fact that the amount of credit currency that it ought to have, from the standpoint of its own credit or from the standpoint of its local needs, would change from year to year, and, being under the control of the Government, it would always be determined from year to year? Would not that be the right system?

Mr. ECKELS. My theory would be to leave it to the bank itself.

Mr. FOWLER. Under the supervision——

Mr. ECKELS. Yes, under the supervision of the Government's officers. I understood Mr. Hill to say that there might be in a special charter more safeguards thrown around the currency. I did not understand him to say that it would affect the volume. I think his point related to the safeguards thrown around. I do not myself believe in special charters.

Mr. FOWLER. But he pointed out that when a special charter was granted an examination could be made as to the condition of the bank, and so it could be determined in that special charter how much currency the bank could have.

Mr. HILL. I asked the general question as to whether as liberal provisions could be given under a general law in reference to credit currency as under a system of special charters.

Mr. ECKELS. The amount of credit currency ought to be regulated by the capital of the bank.

Mr. FOWLER. Would it not be better to have that entirely under the supervision of the Comptroller each year? He could pass upon each as it arose.

Mr. ECKELS. The law should be a general one. I understand from Mr. Hill, in regard to special charters, that under that method he believes extra precautions could be taken relative to the note holder.

NOTES REDEEMABLE IN GOLD ONLY.

Mr. HILL. In the bill under discussion to-day the provision for the redemption of credit currency is that it shall be redeemed either at the counters of the banks or at a clearing-house city in gold, or 40 per cent thereof may be redeemed in United States Government bond notes or silver.

Mr. FOWLER. No silver in it.

Mr. HILL. No silver in your bill?

Mr. FOWLER. No, sir; and that these Government bond notes are then redeemable upon demand in gold. Now, the object I had in that was that this was a transition period, and so soon as the United States Government bond notes are retired and we have, through evolution, reached a perfect and general credit system, and there will have been no more bond notes, we will have acquired gold enough throughout the country in the banks to have gold redemption alone.

Mr. ECKELS. You would do better, Mr. Fowler, by having all your notes redeemable in gold.

Mr. FOWLER. Is it your opinion that we could start on such a system as that, and if the 10,000 banks in this country would go into it they could all obtain, say in five years, enough gold to maintain such redemption?

Mr. ECKELS. It would depend on the percentage of credit notes which the banks were permitted to issue, and it would also depend on what progress the United States made in its redemption and cancellation.

Mr. FOWLER. It is based on the funding of the debt, and all that, and coming down to a practical situation?

Mr. ECKELS. Possibly in five years. It did not take much longer than that, as I remember, to prepare for the resumption of specie payments; and when the day to commence the same arrived everybody was satisfied that redemptions could and would be made as promised and nobody wanted redemption.

Mr. FOWLER. If it is clear that in this moment of transition, or hour of transition, or decade of transition, that could, in wisdom, be done, I heartily agree with the single gold redemption, but it was only because of these notes that are of themselves Government bond notes, and redeemable in gold at the counter of the banks, that I made it optional on the part of the banks of redemption or the clearing house to redeem, if they wanted to, 40 per cent of the credit notes in United States Government bond notes.

Mr. ECKELS. More confidence would be established if it was known the notes were redeemable in gold and would not have to go through a transition state.

Mr. FOWLER. Would not that amount to gold redemption, when the other notes are——

Mr. ECKELS. But it necessitates an extra step. In this extra step you create a possibility of doubt in the soundness of the note.

Mr. FOWLER. But that steadies the demand for the moment, if there should be an extra demand for gold. That is all.

Mr. ECKELS. The idea would be that the note holder would know his note was as good as any other, based on United States Government bonds.

REDEMPTION OF CREDIT CURRENCY.

Mr. FOWLER. Another question that referred to your idea that the currency of the country should be general, although credit or security. Would not the terms written and printed on the note show that one was secured and the other was purely a credit note? Would not the terms of it show that?

Mr. ECKELS. Not necessarily. A record might be kept of the percentages.

Mr. FOWLER. Do you mean to say that you would make no distinction

whatever if the United States was issuing $500,000,000—we will assume that much—secured by bonds, and $500,000,000 of credit notes; that there would be no distinction between the $500,000,000 secured and the $500,000,000 not secured?

Mr. ECKELS. I do not think it would be necessary; no.

Mr. FOWLER. What notes, then, would be paid off when the bonds were retired—any of the $500,000,000 that were presented first?

Mr. ECKELS. Under a general guarantee of the Government that it would redeem all notes of failed banks——

Mr. FOWLER. That brings up this question——

Mr. ECKELS. The Government might do this. It would have so much security absolutely for such percentage of the notes. It might take possession of such percentage of the assets necessary to reimburse it to redeem the amount issued in the way of credit currency.

Mr. FOWLER. Do I understand you to recommend, then, that the Government should guarantee all this, absolutely, instead of providing a safety fund for its redemption?

Mr. ECKELS. No, I have not recommended that; but I have said that under the guaranty of the Government there would not be any necessity of distinction in the notes. There certainly ought to be a safety fund for the Government's protection on its guarantee.

SAFETY FUND.

Mr. FOWLER. Which do you believe would be the sounder proposition in every sense, to provide a guaranty or redemption fund—a safety fund of 5 per cent, which is more than adequate in the light of experience—or that the Government should itself directly guarantee all of the notes of the banks of the country?

Mr. ECKELS. A safety fund backed by a Government guaranty would be perfectly safe. The safety fund should be sufficiently large to make the Government's contingent liability on its guaranty as remote as possible. The Government should have as little to do with the matter as it ought, consistent with public safety.

Mr. FOWLER. Is it your opinion that it should rest upon a safety fund of 5 per cent, or that the Government should guarantee the notes?

Mr. ECKELS. I should have a safety fund and have the guaranty beyond, although I do not imagine resort to it would ever be necessary.

Mr. FOWLER. Because it would amount to nothing. I quite agree with you.

Mr. ECKELS. It would be as it is now. The Government's bonds are deposited by the banks to secure the notes; yet under the law there is provision that they shall also be a lien on the assets. The lien is never resorted to because ample protection is afforded to the note holder in the value of the bonds.

Mr. FOWLER. He has the first lien now, has he not?

Mr. ECKELS. Yes; but it is never looked to. The Government with a safety fund would never be called on because of its guaranty. The safety fund would take the place of the bonds deposited under the present system and the Government's guaranty that of the first lien created on the assets. The Government, however, for its remote responsibility ought to be protected by a safety fund.

Mr. FOWLER. That is it, exactly.

Mr. HILL. Will you pardon me if I ask a question not in relation directly and specifically to this matter? I would like to have the answer for my personal satisfaction, and it is not relating directly to this matter that we have been considering.

COST OF COIN SHIPMENTS.

Do you believe that the difference in weight between gold and silver is of itself a cause of sufficient difference in cost of shipment, etc., to prevent its parity at any fixed ratio?

Mr. ECKELS. I do not believe you can ever maintain for monetary purposes a parity of the metals at any fixed ratio.

Mr. HILL. Would not that cause alone—the difference in the cost of shipment—be sufficient to prevent it being maintained at a parity at any fixed ratio?

Mr. ECKELS. The largest reason why silver has gone down in price in the commercial world is because it takes so much of it to answer purposes which can best be answered by a smaller quantity in gold.

Mr. HILL. The reason I asked the question is that I have taken that ground for the past few months and it was antagonized in the Senate yesterday.

Mr. ECKELS. The reason you can not get people to carry silver dollars is the weight of them.

Mr. HILL. The express charges?

Mr. ECKELS. Yes; the weight, and therefore they want to carry paper. People wish the convenient thing in business, just as they do in anything else. They wish the best and not the poorest in money metals. This desire can not be done away with by statutory enactment.

FINANCIAL POLICE POWERS.

The CHAIRMAN (Mr. Brosius in the chair). Growing out of the examination of Mr. Fowler, there is a question I want to ask just here. I do not think that on reading over the transcript the Comptroller will be quite satisfied with his answer on the subject of security afforded by the bonds, and so I want to put this question: Assuming that some banks, by mismanagement, either through indolence or fraud, will break up and not have enough to pay all their debts, do you agree that it is a sound principle to secure first the currency issued by the bank, rather than the depositor?

Mr. ECKELS. Yes.

The CHAIRMAN (Mr. Brosius). I need not go into the reason of that; the philosophy of it is very obvious. Assuming that the bank may deposit these assets to a greater or less extent, so that when it is closed up it does not have them all and can not pay all its debts, would not the fact that a portion of its assets had been placed in the hands of a trustee add that much to the security of the creditors, whatever kind they were?

Mr. ECKELS. Unquestionably——

The CHAIRMAN (Mr. Brosius.) By as much as these assets that have been put into the hands of the trustee increased the total assets that were distributed, the depositors would get the benefit, would they not?

Mr. ECKELS. Yes; they would get the benefit of it——

The CHAIRMAN (Mr. Brosius). The depositors would get the benefit of that.

Mr. ECKELS. But it doesn't increase the total amount of the assets of the depositors, except as it increases the amount which had not been stolen——

The CHAIRMAN (Mr. Brosius). Now, when you increase the amount that has not been stolen, do not you add to the security of the creditors?

Mr. ECKELS. Oh, yes. I might add, in connection with all this, that I would not permit any credit currency to issue without either a safety

fund or a Government guarantee, or both, and I think it would be wise to have both.

Mr. HILL. Why should a Government guarantee a note holder or practically guarantee the solvency of a bank under a general law any more than it should guarantee the solvency of a railroad under a general law, without the securities being in its own possession, or a dry goods business, or any other business?

Mr. ECKELS. I do not think you can place bank notes which are to circulate as and answer the purposes of money upon the same footing with other evidence of indebtedness issued in other kinds of business. The Government, through enacted law, in every country regulates bank-note issues because of the great public interests involved, the number of people using them from day to day, the transactions resting upon their character and solvency, and because of the necessities of daily business compelling people to generally accept them. This regulation it can rightly carry to the extent of guaranteeing them. Upon these arguments are based the correct and scientific theory for the Government's assuming to regulate and care for bank-note issues. It is exercising financial police powers, justified by public necessity and the need of public protection. The guarantee of the Government would simply be a form of this power, having the effect of making the note holder feel absolutely secure. The Government, through other means provided, would be held harmless of loss.

Mr. FOWLER. It is really the moral effect you seek, without responsibility.

Mr. ECKELS. And the safety fund would be for the protection of the Government.

Mr. CALDERHEAD. I have some questions to ask about the subtreasury and clearing house.

Mr. ECKELS. If Mr. Calderhead will put his questions in writing I will be glad to answer them, and the questions and answers can go in the record.

Mr. CALDERHEAD. I will be glad to submit my questions in that way and have them, together with your answers, go into the record.

Upon motion of Mr. Hill, the committee, by a rising vote, unanimously tendered its thanks to the Comptroller for his kindness in appearing before the committee and so fully and clearly replying to the questions asked him.

Thereupon, at 1.30 p. m., the committee adjourned.

[The following are the questions asked the Comptroller of the Currency by Mr. Calderhead, in writing, with the replies of the Comptroller thereto.]

QUESTIONS BY MR. CALDERHEAD.

Mr. CALDERHEAD. What were the respective amounts of legal tenders and national-bank notes in the year 1878?

Mr. ECKELS. The legal tenders outstanding on June 30, 1878, were $346,681,016, and the national-bank notes outstanding on June 30, 1878, were $322,919,810.

Mr. CALDERHEAD. What amount of each below the denomination of five-dollar notes?

Mr. ECKELS. The legal tenders, denomination of one dollar, are $20,929,874; legal tenders, denomination of two dollars, $20,910,948; national-bank notes, denomination of one dollar, $4,059,836; national-bank notes, denomination of two dollars, $2,820,132.

Mr. CALDERHEAD. And what became of these notes of less than $5?

Mr. ECKELS. In 1886 the Department began the redemption of one and two dollar legal-tender notes and the substitution of silver certificates and later of Treasury notes of like denominations. The issue of national-bank notes of the denomination of one and two dollars ceased after January 1, 1879 (see sec. 5175, Rev. Stat.), and were canceled as presented.

Mr. CALDERHEAD. What apparent effect on the amount of national-bank circulation did the coinage of silver dollars and the issue of certificates under the act of 1878 have?

Mr. ECKELS. The amount of circulation of national-bank notes since 1878 has apparently varied with the needs of trade and the profit upon the same. From 1878 until the year 1882 there was a steady increase in national-bank issues. During this period there was an increase in trade and a consequent demand for currency. The increase in silver issues had not become so great as at a later time. It is noticeable that from 1882 until 1893 the reduction in the amount of bank notes was very marked and the increase in silver very large. There has been an increase in the amount of them since 1893, during which time there has been no issue of Sherman notes. Undoubtedly the competition of silver and Treasury issues must tend to restrict bank-note issues whenever the competition is made manifest. The variations in the volume of bank-note currency is shown to have been as follows since 1878:

National-bank notes outstanding on June 30, 1878 to June 30, 1896.

Year.	Amount.
1878	$324,925,483
1879	328,966,030
1880	343,893,537
1881	354,618,399
1882	357,555,266
1883	356,069,408
1884	338,689,301
1885	$316,852,618
1886	308,488,358
1887	278,893,513
1888	252,179,641
1889	211,172,726
1890	185,722,978
1891	167,550,906
1892	$172,399,855
1893	178,350,397
1894	206,854,787
1895	211,386,927
1896	225,527,150

In order to fully appreciate the variations, I desire to call your attention to the increase in the amount of silver and silver certificates in the years since 1878.

The two tables should be studied together.

Silver and silver certificates in circulation on June 30, 1878, to June 30, 1896.

Year.	Amount.
1878	$65,780,545
1879	75,414,713
1880	79,610,792
1881	120,778,076
1882	138,877,003
1883	160,436,865
1884	181,882,732
1885	$183,705,136
1886	186,742,200
1887	246,194,469
1888	306,287,314
1889	362,997,246
1890	407,446,142
1891	423,338,113
1892	$446,063,805
1893	448,919,176
1894	436,519,102
1895	431,934,632
1896	443,435,312

Mr. CALDERHEAD. When did the issue of silver certificates below $10 begin?

Mr. ECKELS. The issue of silver certificates below the denomination of ten dollars was authorized by the act of August 4, 1886.

Mr. CALDERHEAD. What apparent effect did the issue of these have on national-bank circulation?

Mr. ECKELS. My reply to a former question covers this.

Mr. CALDERHEAD. What amount of silver dollars and silver certificates were issued under the Bland-Allison Act of 1878, and what apparent effect did this have on the national-bank circulation?

Mr. ECKELS. The total coinage under the Bland-Allison Act of 1878 amounted to $378,166,793. Silver certificates issued under that act (June 30, 1890), $301,539,751.

I can only make the same reply heretofore given as to the latter part of the question.

Mr. CALDERHEAD. What were the respective amounts of legal tenders, national-bank notes, and silver certificates in circulation in 1890, at the time the silver-purchasing act of that year was passed?

Mr. ECKELS. The legal tender notes in circulation on June 30, 1890, were $323,046,826; the national-bank notes in circulation $181,396,823; the silver certificates in circulation $297,210,043.

Mr. CALDERHEAD. What amount of Treasury notes were issued under that act?

Mr. ECKELS. The Treasury notes issued under the act of 1890 were $155,931,002.

Mr. CALDERHEAD. What amount of silver dollars and silver certificates have been issued under that act?

Mr. ECKELS. Silver dollars issued under the act of 1890 were $61,261,626. There is no record of the silver certificates issued under the act of 1890, but when these silver dollars are returned silver certificates are issued thereon in the same manner as other silver dollars, and no separate account is kept of these certificates.

Mr. CALDERHEAD. What effect, apparently, did the issue of Treasury notes under that act, and the silver and silver certificates, have upon the amount of national-bank circulation?

Mr. ECKELS. I have already answered this, giving my judgment of the matter.

Mr. CALDERHEAD. When did the subtreasury begin to pay its balances at the clearing house in New York in gold, and how long did it continue to do so?

Mr. ECKELS. From September, 1880, to September, 1882, payments were made in gold coin, United States notes, and silver certificates. From October, 1882, to January, 1886, in United States notes and gold certificates, except in February, 1885, when $100,000 silver certificates were used, and in August, 1885, when $260,000 gold was used; from February to July, inclusive, 1886, United States notes were used exclusively; from August, 1886, to July, 1890, United States notes and gold certificates only were used; from August, 1890, to July, 1892, payments were made in United States notes, Treasury notes, and gold certificates, with the exception of about $62,000 of silver certificates used in the Spring of 1891; from August, 1892, to June, 1893, United States and Treasury notes were used in addition to about nine million of gold certificates during the months of October and November, 1892, and January, 1893; from July, 1893, to February, 1894, the settlements were mainly in gold coin and some United States and Treasury notes. The use of gold coin which began in July, 1893, and closed in February, 1894, was the only time since August, 1885, to September, 1896, that it occurred; from March, 1894, to December, 1894, United States and Treasury notes were used, and since that date United States notes only.

Mr. CALDERHEAD. Did the stock of gold increase or diminish in this country during those years, and how much?

Mr. ECKELS. The stock of gold in the country for various reasons

increased, from June, 1893, to January 31, 1894, $123,724,216. The increase prior to the dates mentioned was very large because of foreign trade and investments from abroad and domestic production.

Mr. CALDERHEAD. What caused the flow of gold to this country during those years?

Mr. ECKELS. The inflow of gold to this country during the specific period referred to in my previous answer, viz, from June, 1893, to July, 1894, was largely the result of the stringency of money causing high rates of interest in this country. During the whole period of time when the increase of gold has gone on in this country, it has come from production of our mines, balances paid in gold in trade and commerce, amounts brought or sent here from abroad for investment, and through the purchase of our securities by those living abroad.

Mr. CALDERHEAD. What proportion of the revenue from customs duties was paid in gold each year from 1878 to 1892, and in what was the remainder paid?

Mr. ECKELS. I can only give as my answer the statistics as shown by the report of the Treasurer of the United States.

Percentage of gold coin, etc., received from customs at New York in June, 1878, to 1896.

Year.	Gold.	Silver.	United States notes.	Treasury notes.	Gold certificates.	Silver certificates.
1878	5.4	0.1	1.8	0	60.1	32.6
1879	.6	.2	93	0	0	6.2
1880	48.8	.1	18.2	0	0	32.9
1881	39.3	.1	3.6	0	0	57
1882	68.7	.1	7.8	0	0	23.4
1883	3.3	.1	7	0	69.4	20.2
1884	3.1	.1	21.2	0	40	35.6
1885	.7	.2	33.3	0	32.5	33.3
1886	.7	.2	81.7	0	4.8	12.6
1887	1.3	.3	13.8	0	72.6	12
1888	.7	.3	11.1	0	73.5	14.4
1889	.1	.1	18.8	0	74.5	6.5
1890	.1	0	2.7	0	94.5	2.7
1891	.2	0	44.6	28.9	12.3	14
1892	.2	0	26.8	49 1	8	15.9
1893	0	0	53	35	0	12
1894	1.9	.1	6.8	7.6	0	83.6
1895	.1	.1	60.2	3.4	0	36.2
1896	0	.0	40	1.3	0	58.7

I also call your attention to Table No. 50, pages 142 to 144, Annual Report of the Treasurer of the United States, 1896.

Mr. CALDERHEAD. How were the payments in gold of the balances from the subtreasury at the clearing house suspended, and when?

Mr. ECKELS. From 1882, the time of the issue of gold certificates, until August, 1890, the payments of balances at the clearing house were made almost entirely in gold certificates, with the exception of a few months in 1884 and 1886, when they were made in United States notes. After the issue of the Sherman notes under the law of 1890, in the month of August they were for the first time paid in settlement of such balances. Thereafter they formed a very large portion of such payments until the repeal of the Sherman act in 1893.

The suspension of the payment of gold certificates and gold coin occurred first in the month of August, 1892, to be resumed again in a comparatively small amount in October and November of that year and discontinued entirely in December of that year. A few were used in January, 1893, but none have been used since that time for this purpose.

The payment of gold coin for this purpose in the autumn and early

winter of 1893 and 1894 was caused by the currency famine of that year. The receipts of gold certificates and gold coin from the banks had fallen from about 95 per cent in February, March, and April, 1890, to 12 per cent in June, 1891, and thereafter continued to fluctuate, rising to 66 per cent in January, 1892, but rapidly falling thereafter to but 3 per cent in September, 1892; thence falling to nothing in May and June, 1893. It has continued at nothing since.

During the currency panic gold coin reached 58 per cent of the total receipts of customs duties in September, 1893, but practically ceased within five months thereafter.

It is thus evident that the suspension of payment of gold in settlement of clearing-house balances was the legitimate outcome of a situation caused by the drying up of gold receipts. These balances were paid in gold by the Government a long time after the banks had ceased to pay gold.

The last payment of gold coin was in February, 1894. It had at that time only paid gold coin for a period of eight months, which was after an interval of eight years. These gold payments resulted from the currency famine then being experienced.

Mr. CALDERHEAD. If the payment of these balances had continued to be made in gold from 1892 to 1895, would the Treasury have been exposed to danger of losing its reserve fund any more than it actually has been exposed during that time?

Mr. ECKELS. It might have been lost more rapidly, but the reason the United States stopped paying gold was because its gold income had practically ceased, and it was dangerously near the reserve limit. It had ceased because the banks and the banks' customers wished to hoard their gold, having doubt as to the financial credit of the country. This condition came about largely through the possibility of the Government not being able to maintain gold payments.

Mr. CALDERHEAD. Would it not have been just as easy to maintain the reciprocal relations of the subtreasury with the clearing house of paying balances in gold and receiving revenue in gold as it was to maintain the Treasury during the last four years?

Mr. ECKELS. I do not see the exact relations between the various parts of this question. It seems to me immaterial whether the gold obtained by the Treasury was used to pay clearing-house balances or to redeem outstanding notes of the Government. If the balances were paid in United States notes they could at once be presented for redemption in gold.

Mr. CALDERHEAD. If the revenue were sufficient now for the current expenses of the Government, what reason would prevent resuming that reciprocal relation between the subtreasury and the clearing house?

Mr. ECKELS. I do not look upon the volume of the revenue receipts as governing in this. It is the volume of receipts and payments of all kinds in all trade which governs, and not merely the Government's revenue receipts. If the banks again get a gold income from the ordinary course of business, which would indicate a cessation of hoarding, and they would make gold payments to the United States, the United States could then settle its balances in gold. But this must be through the natural course of business, and not forced. It can not come if confidence is lacking in the Government's credit.

Ordinarily, in the course of business the expense of handling gold coin, where there is no question of the paper being of equal and interchangeable value with gold coin, is such that the people, to save expense in handling, wish paper instead of gold. This causes the gold to go to the banks, and from the banks to the Treasury. The element

of confidence, of course, enters into this, as does the element of a wish to lessen the expense attendant upon monetary transactions.

Mr. CALDERHEAD. If this relation were resumed and maintained, is there any probability that national banks would increase their circulation, either under the present law or under either of the bills introduced by Mr. Walker, Mr. Hill, or Mr. Fowler?

Mr. ECKELS. The amount of currency taken out under any bank bill would depend on the margin of profit to the issuing bank. It would be controlled by the conditions of trade, the confidence which the notes issued enjoyed at the hands of the people, etc. It would not be governed by any one cause. I do not think the single factor stated would have a controlling influence, if any.

Mr. CALDERHEAD. If the revenue were sufficient for the current expenses of the Government, what present or future danger is there of a loss of gold from this country sufficient to prevent the subtreasury and the clearing house from making and receiving payments in gold?

Mr. ECKELS. The same danger that existed from 1888 to 1893, when the gold reserve fell from $219,059,232 to $80,891,600. The monetary system is at fault, and until it is remedied the banks will not get a gold income. The maximum of the gold reserve was the former figures, but on February 11, 1895, it had fallen to $41,340,181. Such a decline only could have been brought about by the Government undertaking to maintain a doubtful monetary system. It is a matter which is independent of revenue and can not be remedied by mere revenue receipts.

Mr. CALDERHEAD. If this relation were resumed and maintained without the purchase of gold except the procuring of it in the ordinary course of trade, would not the whole expense to our people of carrying our money be the interest upon the gold reserve fund and the cost of the national-bank currency?

Mr. ECKELS. I do not deem it possible to procure gold in the ordinary course of trade under present conditions. It certainly could not be so procured during the time when the expense of the system has been most manifest. Gold hoarding is always manifest at such times as there is a financial depression, growing out of doubt as to the stability of the monetary system. The result of this hoarding is to take gold out of the channels of trade, and it can not, therefore, be gotten into the Treasury. Extraordinary methods in the form of bond issues have to be resorted to, with attendant expense and doubt. The expense falls upon the people in the way of increased taxation, and the doubt effects them in disturbing all business relations with consequent loss. Of course, there is loss of interest on the gold reserve, and there is loss to business interests, otherwise, by depriving them of the volume of the reserve when that amount is needed in business. The direct and indirect loss to business through a false system, breeding as it does, panic and speculation, can not be calculated.

Mr. CALDERHEAD. What per cent on the whole stock of our money would this be?

Mr. ECKELS. It is impossible for me to answer the question as propounded.

Mr. CALDERHEAD. If the greenbacks and other Treasury notes were all retired this year, what amount of reserve would be necessary to maintain the silver and silver certificates at par?

Mr. ECKELS. That would depend largely upon the provision governing such coin and certificates. No percentage is large enough to protect under any and all circumstances issues which, when once redeemed, are reissued for any purpose without first requiring a return of the coin they represent.

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